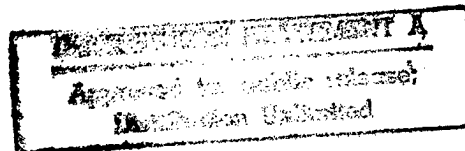


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JPRS-CEA-85-064

18 July 1985



# China Report

ECONOMIC AFFAIRS

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18 July 1985

# CHINA REPORT

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

RURAL ENTERPRISES INCREASE TOTAL ANNUAL OUTPUT

OW251059 Beijing XINHUA Domestic Service in Chinese 0752 GMT 24 Jun 85

[Article by Dai Guoqiang and Liu Kuihua]

[Excerpts] Beijing, 24 Jun (XINHUA)--The total annual output value of the 6.06 million village and town enterprises in China's rural areas has reached 170 billion yuan. Because of this achievement and their surging vitality, these enterprises now occupy an important position in the national economy. They are playing an increasingly important role in promoting the four modernizations, enlivening the country's urban and rural markets, improving the people's livelihood, and especially, in transforming the single-product rural economy into an agriculture- and commerce-oriented comprehensive economy. [passage omitted]

From 1979 through 1984, the country's village and town enterprises turned in 26 billion yuan in tax money to the state, or 380 percent more than the amount of financial support given them during the same period. Of the total 26 billion yuan, 9.06 billion was turned in last year, representing an increase of 3.17 billion over 1983, that is, about 19.5 percent of the 16.23 billion yuan of the country's new revenue in 1984. [passage omitted]

Mining enterprises in the nation's countryside have developed rapidly since last year, producing large quantities of coal and a great variety of metal ore for industrial production. Energy produced by village and town enterprises last year was equivalent to 164 million tons of standard coal, or 19.7 percent of the nation's total energy output. The total energy consumed by the nation's village and town enterprises during the same period was less than the equivalent of 100 million tons of standard coal.

The country's village and town enterprises have become an important financial source in the countryside. According to statistics, these enterprises' fixed assets and circulating capital last year amounted to 97.4 billion yuan, topping those for the previous year by 23.6 billion yuan. Wages paid to and profits distributed among workers of these enterprises last year totaled 24.6 billion yuan, or an average of 639 yuan for each worker. This means that every one of the country's 800 million peasants earned an average of 37 yuan in wages from village and town enterprises last year. The figure accounted for 12 percent of the peasants' net per capita income for 1984. In addition, the country's village and town enterprises spent 2.3 billion yuan in profit money to support rural construction and public welfare projects last year. [passage omitted]

NATIONAL POLICY AND ISSUES

PRC SYMPOSIUM DISCUSSES SOCIAL REPRODUCTION

HK251015 Beijing GUANGMING RIBAO in Chinese 8 Jun 85 p 3

[Article contributed by JINGJI YANJIU Editorial Department: "Discussion on Problems of Reproduction in Socialist Society"]

[Text] Editor's Note: On 1 June, this column published a briefing on the discussion on the problems of the system of socialist ownership, the problems of socialist commodity economy, and the problems of planning and the market in a socialist economy at the academic symposium called "Retrospect and Prospect on Socialist Economic Theories in China." In order to urge our economic theoretical circles to more widely and deeply carry out their research, today we continue to publish the briefing on the discussions on several other questions for the reference of our readers. [end editor's note]

The problems of reproduction in socialist society are important theoretical problems of great practical significance. Since the founding of our country, our economic circles have carried out two relatively large-scale discussions on the problems of reproduction in socialist society: The first discussion was carried out in the late 1950's and early 1960's. To counter the mistakes in our country's economic construction, particularly during the "great leap forward," we focused on discussing the relations between simple reproduction and expanded reproduction, the relations between extensive expanded reproduction and intensive expanded reproduction, the proportional relations between the two departments in the process of reproduction, the relations among agriculture, light industry, and heavy industry, the relations and quantitative boundary between consumption and accumulation, and other problems. The second was carried out during the late 1970's and early 1980's. In addition to further deeply discussing the problems raised by the previous discussions, some new problems were raised, such as the problem of the content of the system of Marxist reproduction theory, the mutual relations between and quantitative analysis of extensive expanded reproduction and intensive expanded reproduction. The participants in this symposium summed up the progress that had been made in the research into the problems of reproduction in our country's socialist society. This progress is mainly shown in the following:

--The problem of intensive expanded reproduction was raised to the plane of economic development strategy in our research work. Through integrating theory with practice, we have pointed out that we should appropriately combine the ways of extensive expanded reproduction with those of intensive expanded reproduction

in any expanded reproduction no matter whether it is of an accumulative or non-accumulative nature. By so doing, we will enable the expanded reproduction in our society to enter a benign cycle characterized by harmony between growth rates and economic results.

--We have even deeply probed into the law that governs the proportional relationship between the growth rates of the two departments in the process of reproduction in our society and into the problem of giving priority to the growth of departments in particular. Some comrades cited the actual increase in the historical development of the two departments to explain this trend; others have applied mathematical models that take into account all relevant factors to logically prove the various trends of change in the proportional relations between the growth rates of the two departments and have thus made a step forward toward the direction of combining qualitative research with quantitative research.

--We should pay due attention to the problem of the reproduction of the labor force and the reproduction of the population, carry out research into the mutual relations between the reproduction of material means and that of labor force and population and into the law that governs the reproduction of population under socialism.

--We have analyzed the position and role of circulation in reproduction in our society, strengthened the research into the economic relations and economic laws in the sphere of circulation and promoted the reform in our economic structure in various departments of our circulation sphere.

--We have carried out research into the problem of the proper limits of the decisionmaking powers of our enterprises, in particular, of their powers in the area of reproduction and thus provided theoretical grounds for rationalizing the activities of our enterprises and reforming their management systems.

The participants in the symposium held that we have to further our research into and discussion of the following problems:

1. The way to combine economic growth with economic results. Some comrades held that we have to switch from a rapid pattern of social reproduction to a structural pattern of social reproduction. A structural pattern of social reproduction is a pattern in which the continuous improvement of the economic structure (including production mix, regional economic structure, technological structure, and product mix) constitutes the precondition. There may be three cases of the relations between structure and speed: 1) A high growth rate together with continuous improvement of the structure, which is often difficult to achieve; 2) a high growth rate with a continuously worsening structure, which will inevitably give rise to new proportional imbalances; 3) an increasing growth rate together with continuous structural improvement, which is what we must strive to achieve. We should continue to carry out research into the conditions and criteria for the improvement of the economic structure, the quantitative limit to rapid growth, and the appropriate growth rate.

2. The relations between technological progress, particularly the new technological revolution, and social reproduction. As technology develops, new

industrial sectors have been rising and the proportion of nonmaterial production sectors in the economic structure of the whole society is increasing day by day. This raises the question of how we are to understand and assess the reproduction of labor and of various industries. We should carry out research into the laws that govern their development, the problem related to the quantitative limit to their development under certain conditions, the relations between primary, secondary, and tertiary industries and between traditional and rising industries, and the impact of the readjustment in our rural production mix and the transference of surplus rural labor on our social reproduction. At the same time, we should also carry out research into the impact of the new global technological revolution on our country's economy. On the one hand, we should carry out deep research into the change in the development level, structure, and nature of our social productive forces and the decisive impact of this change on the speed, proportion, and structure of our social reproduction and on the production, distribution, exchange, consumption, and other links in the general process of our social reproduction. On the other hand, we should carry out research into the impact of the various changes in the cycles of social reproduction on the level, nature, and structure of our social productive forces.

3. The relations between the economic structure and mechanism and social reproduction. In conducting research into the orientation and content of the reform in our country's economic structure in light of the objective laws that govern reproduction in a socialist society, we should discuss many questions. For example, the question of how we are to effectively combine the state's macroeconomic management and the enterprises' microeconomic management in our economic structure so as to ensure that reproduction in our society and reproduction in our enterprises operate synchronously and in a benign cycle. For another example, the questions concerning the reform in the structure of ownership which is related to the reproduction of the relations of production, the reform in our livelihood consumption administration system which is related to the reproduction of labor, and ecological management which is related to the reproduction of the natural environment and resources. Concerning economic structure, we should pay attention to the research into the relations of the law of value, the movement of prices, and the circulation of currency with social reproduction.

CSO: 4006/736

NATIONAL POLICY AND ISSUES

PRC SYMPOSIUM DISCUSSES PROBLEM OF PRICES

HK251107 Beijing GUANGMING RIBAO in Chinese 8 Jun 85 p 3

[Article contributed by JINGJI YANJIU Editorial Department: "Discussion on Problems of Socialist Commodity Prices"]

[Text] The problems of prices in a socialist economy are problems that we have discussed for a long time since the founding of the PRC. However, a particularly clear theoretical breakthrough has been achieved in the past few years. The participants to the symposium held that progress was mainly made in the following areas:

--Concerning the relations between prices and value and between supply and demand, in other words, concerning the problem of the basis for the emergence of prices, we have given up the view that we universally held in the past that the basis for socialist prices can only be value, a view that does not take into consideration the relations between supply and demand. At present we have the following three views on the basis for prices: 1) Prices are decided by production; 2) prices are decided through two channels; 3) equilibrium prices--prices are guided by the equilibrium between supply and demand. All three views recognize the role of supply and demand in the pricing mechanism, where they differ is that the former two hold that pricing should be based on value or the transformed mode of value while the latter holds that the relations between supply and demand in the market should be the basis.

--Concerning the problem of the functions of prices, we have switched from the view that was generally stressed in the past that prices have the function of calculating the consumption of social labor and the distribution of social income to the universally-upheld view that prices should become a major lever in regulating social reproduction.

--Concerning the pattern of prices, we have switched from a unitary pattern of fixed prices to a diversified price pattern that consists of fixed prices, float prices, and free prices.

--Concerning the problems of price readjustment and reform, we have given up the view that upholds a thorough separation of the readjustment of the price structure and the reform of our price system, and hold that the readjustment and the reform should be carried out in coordination.

The participants to the symposium hold that it is imperative to discuss and probe into some important problems in the theory of prices.

1. The question of what is the axis for the price fluctuations which objectively exist in a socialist commodity economy. In order to be clear on this question, we must carry out research into commodity production under specific social and economic modes, and into the environment and mechanism for striking a balance between the interests of the principle economic sectors in the process of exchange.

2. The problems related to the mechanism of the movement of the economy under the system of dual prices, the relative stability of the movement of the economy under this system, and the channel for a smooth transition from a dual-price system to a single-price system.

3. The question of how we are to give play to the role of prices as a major lever in regulating the movement of our economy from the point of view of the unity between macroeconomic balance and microeconomic efficiency under the conditions of a planned commodity economy.

Besides, there is also the problem concerning the relationship between and policies for the reform in our price system and the reform in our price management.

CSO: 4006/736

## NATIONAL POLICY AND ISSUES

### PLANNED COMMODITY ECONOMY, FINANCIAL BALANCE

HK261029 Beijing GUANGMING RIBAO in Chinese 15 Jun 85 p 3

[Article by Wang Shaofei [3769 4801 7378]: "The Planned Commodity Economy Should Maintain Financial Balance"]

[Text] In a planned commodity economy, it is still disputable whether to implement a policy of maintaining financial balance or a policy of financial deficit. In my opinion, a planned commodity economy should refrain from financial deficit. This is because:

First, financial deficit will aggravate the imbalance between demand and supply. Capitalist commodity economy needs financial deficit to create demand with capability for payment in order to relax the pressure of overproduction. While in the planned commodity economy based on public ownership, the balance between general social supply and demand can be consciously controlled through the national plan without financial deficit. In recent years, China has financed construction by issuing state bonds and creating overdrafts at the bank, while at the same time putting a large amount of currency into the market; however, it has failed to provide a corresponding volume of commodity supply to the market, and has in effect aggravated the imbalance between supply and demand.

Second, financial deficit is the breakthrough in the excess distribution of national income. The excess distribution of national income is an economic phenomenon emerging in modern economic life with the circulation of currencies. Only a social organ which controls the issuance of currencies is capable of carrying out excess distribution. In China, enterprises do not have the means of excess distribution; the distribution of enterprises can only lead to changes of the distribution structure, but cannot evolve into excess distribution of the total volume. The distribution of prices and tax revenues can only bring about the transfer of income, but cannot change the total distribution volume of national income. Only the financial departments and the banks can master the means of excess distribution. Therefore, financial deficit is the breakthrough in the distribution of national income. In order to keep excess distribution in control, it is primarily necessary to start from financial balance and the balance in credit loans. Some people hold that the expansion of consumption funds has led to excess distribution. This is seeing things superficially. The cause lies in the fact that financial departments and the banks have given up the principle of maintaining financial balance, and supported the expansion of consumption funds of the enterprises in the form of issuing currencies, which has resulted in excess distribution.



Third, the true nature of financial deficit is to give up the financial means of macroscopic control. Macroscopic control must possess corresponding means. In order to invigorate the enterprises, it is necessary to relax the control of use value. However, the concentrated control of value operation must be strengthened, and the balance in the general supply and demand must be maintained. The most important means in value control is finance and credit loans. Macroscopic control and financial deficit just do not go together; they are contradictory to each other; and we cannot have them both.

Fourth, financial deficit may for a time stimulate the rate of economic development. However, the effects of deficit are accumulative. Once the way is adopted, it will be very difficult to turn back. Long-term financial deficit will lead to continuous inflation and debt crisis. Inevitably, taxes will be increased, and the national economy development and the people's living standards will be affected. Therefore, financial departments must firmly grasp financial balance, so that no deficit may take place in both central and local finances and macroscopic control is ensured.

The concept of deficit should be the difference between normal income and expenditures, and it should not be the difference between normal expenditures and normal income plus income in terms of debts. Foreign countries generally do not cover deficit with income in terms of debts in calculation. In our financial concept, the distribution of national income and financial income should be linked with the national income of the fiscal year that can be distributed. Income in terms of debts belongs to the norm of the credit of the state, if the concept of deficit is included, it will cause confusion in the norm of theory.

CSO: 4006/736

NATIONAL POLICY AND ISSUES

PRC SYMPOSIUM DISCUSSES SOCIALIST OWNERSHIP

HK250845 Beijing GUANGMING RIBAO in Chinese 1 Jun 85 p 3

[Article contributed by JINGJI YANJIU Editorial Department: "Discussion on Problems of the System of Socialist Ownership"]

[Text] The question of how we are to proceed from reality in our country and establish a structure of socialist ownership with Chinese characteristics in accordance with the requirements of the law that the relations of production must be suited to the nature of the productive forces, is a major issue that we cannot evade in the reform of our entire economic structure with the focus on urban reform. Since the 3d Plenary Session of the 11th CPC Central Committee, as the development of the reform in our economic structure has continued to deepen, on the basis of summing up the historical experience gained since the founding of the PRC, our country's economic circles have carried out wide and deep discussion centered on the problems of the system of socialist ownership. The participants in the symposium reviewed the discussion in the past few years and held that breakthroughs have been made in the following aspects of the theory on the system of socialist ownership:

--We have broken with the traditional view that in a socialist society, we can only implement a unified form of public ownership and put forth the theory on the pluralist nature of the structure of socialist ownership, namely, the theory that under the precondition of giving the economy owned by the whole people a dominate position, we should persist in simultaneously developing diverse economic forms including the collective economy, individual economy, the economy of joint Chinese and foreign investment, and the economy of the sole proprietor firms of foreign businessmen.

--We have broken with the traditional idea that socialist public ownership consists of only two forms--ownership by the whole people and collective ownership, and we have put forth the thesis that economic combines in which enterprises owned by the whole people or collective enterprises are the major partners are also a form of socialist public ownership.

--We have broken with the traditional idea that the ownership by the whole people means that the state organs directly manage enterprises and put forth the thesis that ownership and power of management can be appropriately separated.

--We have broken with the traditional idea that the collective economy is a lower form of socialist public ownership and put forth the thesis that the collective economy is an important part of the socialist economy.

--We have broken with the traditional idea that individual economy is incompatible with socialist public ownership and put forth the thesis that the existing individual economy in our country is linked with socialist public ownership and is a necessary and useful supplement to the socialist economy.

--We have broken with the traditional idea that there is only one management method for one kind of public ownership and put forth the thesis that there can be diverse management methods for one form of public ownership.

The participants to the symposium held that these breakthroughs in the progress of the theory on socialist ownership had not only enriched the content of socialist political economy, but also [?] the progress of our socialist modernization. However, we still have to conduct further theoretical reasoning about and research into a series of topics on the problems of the system of socialist ownership.

1. The necessity of the pluralist nature of the structure of the system of socialist ownership. The idea in vogue at present is that the multi-tiered levels of development of our productive forces determine the multi-tiered structure of ownership. Imperceptably, this has given rise to the idea that respectively links the economy owned by the whole people, the collective economy and the individual economy with the higher and lower levels of productive forces. This is not a scientific idea and it is apt to lead to much change in our policies. We should discuss whether we can accept the idea that "the diversification in the development of our productive forces determines the pluralist structure of ownership." For every new form of ownership, we should discuss the question of how we are to earnestly observe the conditions that gave rise to it, its actual internal relations of productions, and the trend of its development.

2. We should discuss the questions of whether the labor in the socialist sector owned by the whole people is directly or indirectly combined with the means of production, whether there is a process of development from being immature to being mature and from imperfect to perfect in the direct combination between labor and means of production, whether state ownership at present is thorough socialist ownership by the whole people or incomplete socialist ownership by the whole people, how we are to make a concrete analysis of the question of whether any collective ownership (ownership by collective enterprises) has permeated in the incomplete social ownership in our sector owned by the whole people.

3. We should discuss the questions of how we are to make the economic activities of various enterprises meet the general demands of the overall development of the national economy, how we are to enable our enterprises to form decision-making centers that are concerned with economic results, how we are to make our enterprises undertake the risk in their investment and management and the responsibility for their bankruptcies, whether there is a quantitative limit to the distribution of income when an enterprise owned by the whole people is

rented to or assigned to the management of other people by all-round responsibility contracts, whether this practice may not cause any change in the nature of the ownership and so on, after the ownership and management powers in the economy owned by the whole people are separated and after our enterprises become relatively independent economic entities and become socialist commodity producers and operators that have decisionmaking powers over their own management and that shoulder sole responsibility for their profits and losses.

4. The reform and development of the rural collective economy. We should discuss the question of how we are to provide a further theoretical explanation of the new changes in the rural relations of production, the question of the trend of development of the rural collective economy of the socialist cooperative system that has been established on the basis of the commodity economy, the relations of this collective economy with the family economy, rural individual traders, and private enterprises, and so on.

5. The reform and development of the urban collective economy. At present, our urban collective economy has already embarked on the path of collective ownership and independent management with responsibility for profits and losses solely shouldered by the enterprises to various degrees. However, the reform in our urban collective economy still lags behind our urban economy owned by the whole people as well as our rural collective economy. It is necessary to deepen our research into a large number of questions, such as how we are to speed up the progress of the reform in our urban collective economy and how we are to understand the trend of the development of our urban collective economy.

CSO: 4006/736

18 July 1985

## NATIONAL POLICY AND ISSUES

## SIGNIFICANCE OF COOPERATION BETWEEN COASTAL AREAS, INTERIOR

HK240745 Shanghai SHIJIE JINGJI DAOBAO in Chinese No 241, 10 Jun 85 p 1

[Report from Chengdu by staff reporter Zhu Xingqing [2621 2622 1987]: "Cooperation Between Coastal Areas and the Interior and Between the First and Third Lines Is of Strategic Significance to Improving the Relations Between Eastern and Western China and to the Distribution of the Productive Forces"]

[Text] [Begin SHIJIE JINGJI DAOBAO introduction] Lu Dadong told our reporter that the system of assembling parts imported from foreign countries and selling the products at home will not last long. Some problems which cannot be solved by relying on "importing foreign capital and technology" can be solved by "promoting inner links" between the first and third lines. Any method adopted by domestic units to carry out cooperation with foreign enterprises is considered a part of cooperation between the first and third lines. [end introduction]

Lu Dadong, director of the office under the State Council in charge of readjustment, reform, and planning for construction on the third line, pointed out: Cooperation between the coastal areas and the interior and between the first and third lines is not a general problem in scientific and technical cooperation. It is a problem of strategic significance for effectively solving the relations between the eastern and western parts of our country and improving the distribution of the productive forces as a whole. It is of profound significance in reinvigorating our country's economy in an all-round way and generally enriching the people. He said this in an interview conducted by our reporter on the eve of the "preliminary meeting to discuss economic and technical cooperation between the first and third lines." The meeting was held on 1 June in Chengdu.

The significance of integration between the first and third lines is being realized by more and more people, because this is an inexorable trend of economic development as a result of opening the coastal areas to the outside world. Lu Dadong emphasized: The method of assembling parts imported from foreign countries and selling the products on the domestic market will not last long without integration between the coastal areas and the interior. Some problems which cannot be solved by relying on "importing foreign capital and technology," such as a balance between income and expenditures in foreign exchange, or other problems, can be settled by "promoting inner links" between the first and third lines.

In regard to natural resources, technology, talented personnel, management, information, communications, and so on, the coastal areas and the interior each have strong and weak points. They will overcome their weak points by learning from each other's strong points through integration. This will promote the development of the new productive forces.

While answering questions asked by this reporter on the principles, content, and forms of cooperation between the coastal areas and the interior, Lu Dadong, who, as well as being the responsible person of the State Council in charge of the construction on the third line, is also responsible for cooperative matters between the first and third lines, particularly stressed the principle of mutual benefit. He said that this was the only principle which should be followed. Once either side is reluctant to carry out the cooperation, it is impossible to complete cooperative projects.

As far as the forms of cooperation are concerned, Lu Dadong pointed out: Premier Zhao said that any forms adopted by domestic units to carry out cooperation with foreign enterprises are applicable to the cooperation between the first and third lines. Briefly, the forms should be flexible and varied. A particular form of cooperation between the first and third lines and foreign countries has been followed recently. This reporter has learned that a foreign company is planning to establish a plant in China which produces microelectronic products. The site of the plant will be in the coastal areas, but its technical force will be provided by a company in the interior.

When answering questions asked by this reporter on the work of the office under the State Council responsible for construction on the third line over the 1 and 1/2 years since its establishment, and its future plans, Lu Dadong said: The project concerning the readjustment and reform of the enterprises on the third line, economic coordination of the southwest, and economic and technical cooperation between the first and third lines is basically a good project. It is obvious that this project can be completed well. We have no other alternative but to undertake the project effectively.

CSO: 4006/736

NATIONAL POLICY AND ISSUES

SUN YEFANG'S THEORY OF SOCIALIST CIRCULATION DISCUSSED

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 1, 25 Jan 85 pp 40-44

[Article by Gao Dichen [7559 3321 7115]: "Some Problems Which We Must Discuss Concerning Sun Yefang's Theory of Socialist Circulation"]

[Text] Proceeding from practical experience in socialist economic construction and taking Marxist theory as his guide, Comrade Sun Yefang [1327 0396 2455] has put forth a series of basic theoretical viewpoints on socialist circulation. These viewpoints embrace important meaning to our country's four modernizations. At the same time, as he has repeatedly stated, he has not yet formulated a more complete system for his theoretical viewpoints on circulation. Thus, unavoidably, there exist several contradictory issues in Sun Yefang's theory on circulation which require further discussion. Here, we will focus on the following few points:

I. The issue involving the starting point for the process of circulation and the question of whether or not there was a process of circulation prior to capitalism.

Comrade Sun Yefang maintains that, as an economic process, circulation must still have as its prerequisite "a social division of labor that is established on the basis of large scale production by machinery." Thus, "circulation began with a capitalist society and not prior to it." "That is to say, there was no circulation in a primitive communist society, slave society and feudal society. Circulation exists only in a capitalist society and other subsequent social forms" ("Economic Research Materials," No 12, 1983, pp 8-9).

According to the explanation by Marx and Engels, men began to use the products of their labor in the activity of exchange with other men in the later days of the primitive commune. Although this accidental activity of exchange did not occupy an important position, did not play any decisive role, did not even constitute an independent economic process of circulation or even truly become commodity circulation in the socioeconomic lives of men, this exchange had already manifested its vitality. On the one hand, it caused the disintegration of the economic system of the primitive commune. On the other hand, it promoted the development of the social division of labor. It shattered the primitive economic activity in which production and consumption

were combined into one, and initiated the separation between production and consumption. In other words, it added a process of exchange between production and consumption. Thus, this activity of exchange could be referred to as a breakthrough in the course of man's socioeconomic development. Later on, this accidental activity of exchange developed continuously, leading to the birth of money and gradually evolving into commodity exchange and commodity circulation. Thus, in light of the course of socioeconomic history, circulation is the overall representation of exchange. Its emergence and development is identical to the emergence and development of commodity exchange. Just as we cannot judge the presence or absence of commodity exchange in terms of the evolution of the socioeconomic form, we cannot use the birth and development of the capitalist mode of production as the basis for determining the presence or absence of the process of circulation. However, Comrade Sun Yefang has used capitalist society as the upper limit for the emergence of the process of circulation. This point is open to question. Although Comrade Sun Yefang has also mentioned that "the emergence of circulation only exists within the limits of the emergence of commodity exchange" (Ibid.), a detailed analysis will show that, in reality, he has regarded the process of the entire historical development prior to the birth of the capitalist economic system as the stage for the emergence of circulation. Otherwise, he could not have concluded that "there was no circulation in a primitive communist society, slave society and feudal society, and circulation only exists in the capitalist society and the various subsequent social formations" (Ibid., p 9).

The history of mankind's socioeconomic development indicates that, as an objective process of a socioeconomic movement, circulation develops gradually in the accidental activity of exchange. The historical progress of its emergence and growth to maturity is consistent with the development of commodity exchange. The emergence of money has complemented the commodity economy. Commodity circulation consisting of commodity exchange with money as the medium is the first historical form of circulation. It is incorrect to fail to realize that, as an independent economic process between production and consumption as well as the first historical form of circulation, the role of commodity circulation with money as the medium in the socioeconomic movement is in conformity with historical reality. However, if we consider what Marx has concluded in his analysis of a commodity economy, that "circulation is commodity exchange with money as the medium" ("Dictionary of Political Economic Terms," Vol I, p 96, People's Publishing House, 1980), to be a general definition of the process of circulation, then we will equate commodity circulation with the general form of circulation. Based on this logic, we can only draw the following two conclusions: Either the process of circulation will always continue as a commodity form, or, after the commodity economy slowly dies away, the process of circulation will no longer exist. In criticizing the "theory of the absence of circulation," Comrade Sun Yefang once clearly opposed these two one-sided viewpoints. However, while acknowledging commodity circulation as a special form of circulation, Comrade Sun Yefang also negated the commodity circulation prior to capitalism as a process of circulation, only acknowledging it as circulation in the embryonic stage. In this way, he has created a contradiction for himself: In negating the existence of the process of circulation prior to capitalism, he has negated the historical role of simple commodity circulation, which has



logically led to the equation of the special form of capitalist commodity circulation with the general form of commodity circulation. Furthermore, one important Marxist argument happens to be the distinction between capitalist commodity circulation and the general form of commodity circulation. It is a necessary weapon for exposing the essence of capitalist circulation.

Thus, I feel that, in accordance with the Marxist explanation on the issue of circulation and Comrade Sun Yefang's theoretical viewpoints of circulation from socialism to communism, the following summary of the starting point and different stages of historical development of circulation may conform in a better manner to the historical process of mankind's socioeconomic development: The primitive and accidental exchange of materials is circulation in its embryonic stage; commodity exchange with money as the medium is circulation in its rudimentary stage; exchange activity with socialized large-scale production as the factor (beginning from a capitalist society) is a process of circulation in its mature stage; and circulation in the future communist society will be a process of circulation in its advanced stage.

## II. The issue involving profit in circulation and labor in commerce.

In August 1963, Comrade Sun Yefang convened a forum on the issue of reproduction with the editorial department of the journal "Red Flag." There he delivered a polemical speech on the acute issue of the criticism of production price as a revisionist viewpoint. In the speech, he put forth the concept of "profit in circulation" and stated that, generally, when people opposed the pursuit of profit they were in reality opposing the pursuit of "profit in circulation." While we should oppose the pursuit of "profit in circulation," it was wrong to oppose "profit in production," which was profit produced through increasing production and improving business management. We not only should not oppose the pursuit of "profit in production" but should encourage it.

What is "profit in circulation"? Comrade Yefang said: Under the condition when prices and value conform to each other, the "profit derived from the increase in production" by the production enterprises "is a proper profit of socialism. . . . We can call this profit 'profit in production,' which is distinct from 'profit in circulation,' which is obtained in the process of circulation or in speculation (the proper commercial profit is also a profit in production, because it is a continuation of the process of production in the process of circulation. Furthermore, the large amount of funds which is used without repayment in circulation should, according to the principle of production prices, split with the production funds the equivalent amount of profit." "Profit in circulation" (referring to the profit derived from the pursuit of price differences) is derived from the irrational "price differences" between different districts, different undertakings and different products. For instance, inside an enterprise, the prices of some products are higher than the value or the production price, while others are lower than the value or the production price. The higher prices have higher profits while the lower prices have smaller profits or even no profit. However, when a product has a higher profit, it does not mean that it has a higher value or a higher production price. It only represents a relationship of exchange of

unequal values when a portion of the value of other products is transferred to this product. Because this profit is not obtained through an increase in production but is brought about by an exchange of unequal values in circulation, then, even when the act of speculation is not present, this profit is by nature also 'profit in circulation' and not profit in production" ("Some Theoretical Issues in Socialist Economics," pp 278-279).

From the above defensive statements made by Comrade Yefang, we can see that the profit in circulation which he mentions includes the following three aspects: (1) the surplus portion over the value of a product which the producer obtains through the exchange of this product, the price of which is higher than the value; (2) the portion above the average profit rate which the commodity dealer or commercial enterprise obtains through the activity of buying and selling; and (3) the income obtained in circulation through speculation activities.

With the exception of speculation, the contents of Comrade Yefang's concept of "profit in circulation" require discussion.

First, we know that the law of value promotes and encourages production by means of integration and differentiation. When price is consistent with value, it will encourage producers of goods with higher individual value than social value to work hard to reduce consumption and improve labor efficiency in order to reduce the individual value of the product. In another case, in the presence of the contradictory role of market supply and demand, when the market price is higher than the product value, the producers will be encouraged to manufacture products where demand exceeds supply. In this case, even those products with individual value higher than the social value will be developed. These two roles of the law of value are linked. Even though we can separate them theoretically, in the reality of commodity exchange, we cannot differentiate the two. This is because the amount of social value of a product is continually changing with the continuous change in labor productivity. On the other hand, the comparative relationship between market supply and demand will undergo myriad changes in light of the changes in the needs of consumption. Thus, it is difficult in practice to separate the role of the law of value when prices and values are consistent from the role of the law of value when prices and values are inconsistent. In addition, it is incomplete and irrational in theory to acknowledge only the first role of the law of value and negate the second, in particular to generally designate the profit produced under the latter role as "profit in circulation" and oppose it as "irrational 'differences.'" Even when we adopt Comrade Yefang's own unique theory of the law of value, that is, the viewpoint of a "planned law of value" in which prices conform to value, when inconsistency appears between prices and value, the following two possibilities may result: One is that prices are abnormally and irrationally higher than values. Another possibility is that the distribution of the aggregate labor in society in the production of various products fails to conform to the needs of society's consumption. This latter possibility will happen frequently because, while social consumption patterns are always changing, the distribution of labor in the different production sectors cannot be readjusted all the time and, even less likely, to enable the distribution of society's labor in over tens of thousands of products to totally conform to the needs of society's consumption.

Second, Comrade Yefang's concept of "profit in circulation" is primarily the transfer of value which takes place in the process of exchange. Thus, the first to be affected is the issue of profit of the commercial enterprise. Commercial profit is manifested in the balance between the procurement and sale of commodities. Comrade Yefang maintains that, in addition to the necessary profit in the process of circulation which is a continuation of the process of production, commercial profit can only "share equal profit with the production funds" according to the funds which are used without compensation. The surplus profit is regarded as irrational "profit in circulation." However, this viewpoint contradicts his own argument on the productive character of commercial labor.

During the period of his writing career in Qingdao, in discussing the issue of commercial labor, Comrade Yefang mentioned the following: "In the past, I have maintained that the commercial sector is a material production sector and that commercial labor is productive labor. Now we should loudly appeal to the public: 'We should reverse the verdict of the labor of the commercial salespeople!' That is to say, we must correct the traditional viewpoint concerning commercial labor in the economy--that commercial labor is not labor that creates value and use-value. Otherwise, we will have difficulty in thoroughly disposing of the old and decayed viewpoint of belittling commerce and circulation which exists in society on a broad scale." We agree with this viewpoint and have written it into the second "concept of circulation."

Since we have theoretically affirmed the productive character of commercial labor, we certainly should also affirm commercial labor as a labor that creates value and participates in the formation of use-value. In this way, we cannot and should not simply use the concept of "profit in circulation" to generally designate any commercial price increase as totally irrational.

III. The issue involving greater power or lesser power of the enterprise in exchange activities.

Under the condition of socialized large-scale production, the process of circulation in socioeconomic movement is made up of hundreds of millions of exchange activities, which can be variously classified: as a means of production and means of subsistence, as final product and non-final product, or as an exchange between enterprises or an exchange between the enterprise and the individual consumer, and so on. Regardless of the method of classification, exchange activities between enterprises will always be an important part in the process of circulation. Broadly speaking, exchange activity between enterprises is an exchange between production and consumption needs, directly related to the smooth functioning of social production.

As to the issue of product circulation among enterprises, Comrade Yefang has, as early as the 1960's, seen through the fundamental malpractice of our country's following the Soviet system of circulation of the means of production, and has proposed substituting the method of circulation for distribution by allocation. To enable a product to meet the technical and technological needs of the process of reproduction in terms of value and use-value, we must promote on a popular scale the contract system involving the supply and marketing of products which can stabilize the relationship between

production and sales, and establish a circulation plan from the higher to the lower level on the basis of the contract system, so as to enable the production and circulation of the whole society to develop in a coordinated fashion according to the scheduled plan and to directly attain the strategic goals fixed by the plan.

However, from his classification of "greater power" and "lesser power" in relation to product circulation, we again encounter a problem which contradicts his theory and assumptions.

We know that Comrade Yefang has proposed a famous argument for the issue of the relationship between the enterprise under the system of state ownership on the one hand and the state on the other. He said: "I maintain that the boundary between greater power and lesser power and between inflexibility and flexibility in the financial and economic system is the boundary between the expansion of reproduction and simple reproduction. Belonging to the realm of the expansion of reproduction is the 'greater power' of the state. The state must impose strict control. Failure to control or failure to impose strict control will result in chaos. Matters belonging to the realm of simple reproduction should be handled by the 'lesser power' of the enterprise. Intervention by the state will result in inflexible control. According to the Marxist concept, so-called simple reproduction means that enterprise capital is compensated according to its original magnitude of value in every cycle. The so-called expansion of reproduction means that, with every cycle, not only the original magnitude of value of the funds is compensated, but the quantity of the funds is also increased" (Ibid., p 141). "Any production which does not demand additional investment by the state and which remains within the realm of the funds is regarded as simple reproduction, which is a simple reproduction of the magnitude of value (of course, the amount in kind should continue to expand). The state should hand over to the enterprise the work within this realm, including the work of the renewal of fixed assets, under state leadership, supervision and inspection. The state must impose strict control and make decisions on the new investments, which involve the expansion of reproduction of the magnitude of value" (Ibid., p 242).

Corresponding to this is the issue of "greater power" and "lesser power" which Comrade Yefang has also proposed in regard to the supply and marketing of materials of an enterprise: "All matters involving the change of the original and traditional cooperative relationship and supply and marketing relationship and involving the change of the direction of production of an enterprise, as well as the organization of supply and marketing and cooperative relationships of new enterprises, are within the realm of the 'greater power' of the state. Even the local government organs have no right to inquire after these matters. However, within the realm of the original cooperative relationship and supply and marketing relationship and within the realm of the original direction of production, the establishment of supply and marketing contracts at fixed intervals and the negotiation of the supply and marketing quantity as well as the concrete variety specifications among the enterprises themselves, are matters within the realm of function and power of the enterprises. The state and localities need not bother about them" (Ibid., p 145). Only in this way will there be control without inflexibility and flexibility without chaos.

Since raising the issue of socialist circulation in 1959, Comrade Yefang has all along maintained that it is necessary to attach full importance to the dynamic role of the process of circulation to the socialist economy and that it is necessary to strengthen the organizational work in the process of circulation in order to promote the rapid development of the socialist economy. Nevertheless, his classification into "greater power" and "lesser power" involving the supply and marketing of products has made it difficult to execute this idea.

First of all, under the condition of a simple reproduction with a constant magnitude of value, the enterprise will still make objective demands for changing the supply and marketing relationship of the products. This is because the gross amount of products of an enterprise will increase to varying degrees as a result of such factors as technological innovation (through the use of depreciation fund or the increase of definite production expenses), the reduction of the consumption of raw materials, the improvement of the labor organizational form and the improvement of work productivity. At this point, if the prices of products are lower than their values and are marketable, the enterprise will demand the change of the original sales channel and sell to new markets with higher prices those newly-increased or surplus products according to the stipulated quantity of the original supply and marketing contract. One may adopt administrative or economic measures to restrict this act. But the result of this restriction will inevitably obstruct circulation and accordingly affect the development of production. Even when the prices of products are consistent with their values, if the original goods-ordering unit is unable to handle the newly-increased volume of products, a change in the original supply and marketing relationship will still take place. An objective demand to open up new channels and new markets and develop new production and sales relationship will still take place. Not acknowledging this demand or arbitrarily preventing this demand will result in the obstruction of the process of circulation and hence the obstruction of the development of production.

Secondly, in view of the above-mentioned sustained progress of intensive expansion of reproduction, the enterprise units which order goods may also put forth new demands on raw materials, materials, and the updating of equipment and the results these factors have on product quantity and quality. Or, the original goods-supply unit may be unable to satisfy these demands for larger quantities of raw materials and materials and for raw materials and materials with new functions and equipment with higher efficiency. In this way, it is not only inevitable but rational to seek new goods-supply units. Prohibiting the enterprises to open up new sources for goods or requiring without exception the approval of the organs which represent the state's "greater power" will unavoidably hinder the normal development of production and circulation.

Thirdly, Comrade Yefang very early on advocated letting the enterprise under the system of state ownership have relatively independent decision-making power in business and has proved in practice this objective necessity. In addition to the various management systems of an enterprise, an important organizational part of this decision-making power is the power over the procurement and sales of products. If changing the original supply and

marketing channels is considered a matter involving the "greater power" and not the enterprise, then the enterprise will have lost an important part of its decision-making power. When an enterprise does not have the power to expand the procurement and sales of products, its ability to expand reproduction will also be reduced. Likewise, its ambition and vitality to open up new markets and expand business will be lost.

Thus, in both theory and practice, Comrade Yefang's attempt to classify the state's "greater power" and the enterprise's "lesser power" based on whether or not that "changes the original and traditional cooperative relationship and supply and marketing relationship" will contradict the basic viewpoint which he has all along vigorously advocated on "enabling the smooth flow of goods" in order to promote the development of the socialist economy. In the last 2 years, the practice of our economic reform has provided an answer to this problem: We must let the enterprise have decision-making power over such matters as opening up new markets and expanding procurement and sales activities accordingly. Even with those products which are under command-style planning, we must let the enterprise have decision-making power in "changing the original and traditional cooperative relationship and supply and marketing relationship" with regard to the portion that surpasses the planned output.

#### IV. The issue involving the place of consumption in the operation of the socialist economy.

Circulation in the socialized process of reproduction is a vast realm that lies between the process of direct production and the process of consumption. It involves production at one end and consumption at the other. In terms of socioeconomic movement, consumption is the ultimate end. Without production, there will be no circulation. Without consumption, there will be no circulation either. There are two kinds of consumption: consumption involving production and the consumption involving people's livelihood. The former is a matter belonging to the process of production itself, while the latter is the ultimate end of reproduction and is truly consumption.

In his "theory of economics," Comrade Yefang has paid more attention to consumption by production and less attention to consumption by people's livelihood. In other words, consumption by people's livelihood occupies a lower position in Comrade Yefang's "Socialist Economic Theory." In several drafts of his "theory of economics" there is virtually no passage that specially discusses the issue of consumption. There is no exclusive chapter on consumption in "On Value," a conception of his "theory of economics" or in the preliminary draft of the "Socialist Economic Theory." In his conception in the "second draft," he has changed the chapter on "The Circulation of the Means of Livelihood," which is related to consumption, into "Commerce." He has also limited the content of "Accumulation and Consumption" to the classification and composition of the various proportionate relationships and consumption funds. He has done very little study of the issue of consumption from the standpoint of its decisive and restrictive role in overall socialist production and circulation.

In capitalist economics, especially in classical political economics, as a reflection of the capitalist economic movement, it is natural to not attach importance to consumption and to not put consumption in the position that it deserves. This is because the production goal of a capitalist society is to obtain surplus value. The demand of consumption by people and the demand of consumption by society can only enter the field of vision of the bourgeois entrepreneurs within the necessary limits of realizing commodity value and surplus value. The establishment of the socialist system of public ownership has restored to normalcy the relationship between mankind's production and consumption which has been distorted by the system of private ownership. That is to say, all the economic activities which men carry out with labor as the core are for the purpose of satisfying the needs of consumption of men themselves. Thus, in the socialist economy, consumption is not only the factor for production, the destination of circulation and the factor for ultimately realizing the product value, but is a link in the movement of reproduction, the goal of production and the point of departure for the entire socialist economic movement. Departing from consumption by men, it will be difficult to organize properly a socialist economic operation, and the development of the socialist economy will lose the direction which it should have. We can even say that we will not have a truly complete socialist economy. The fundamental economic law of socialism, as Stalin pointed out, is "to make use of the method of enabling socialist production to grow continuously and become complete on a highly technological basis to guarantee the satisfaction to the greatest extent the constantly growing material and cultural needs of the whole society." This is absolutely correct. However, because of the influence of bourgeois economics, Soviet textbooks on political economics have failed to implement this point properly. Comrade Yefang's "Socialist Economic Theory" has clearly taken the various versions of "socialist political economics" of the Soviet Union as the targets of criticism. He has rendered indelible contributions to the development of the socialist portion of Marxist political economics. However, in handling the issue of consumption in the socialist economy, he has failed to fully discard the influence of Soviet political economics, although he may not even be aware of this point.

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CSO: 4006/648

18 July 1985

## NATIONAL POLICY AND ISSUES

## ECONOMIST YUAN BAOHUA DISCUSSES RESTRUCTURING OF ENTERPRISES

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 2, 5 Feb 85 pp 7-8

[Article: "Make Persistent Efforts To Do Well From Start to Finish, and Do a Good Job of Enterprise Restructuring; Yuan Baohua Discusses Enterprise Restructuring in 1985 at the Conference on Enterprise Restructuring Work"]

[Text] Recently, the leading group in enterprise restructuring throughout the country convened a conference on the work of restructuring enterprises for the various departments of the State Council as well as the various provinces, autonomous regions and municipalities directly under central jurisdiction. Yuan Baohua [5913 1405 5478], head of the leading group in enterprise restructuring throughout the country, delivered a speech on the basic situation of the current enterprise restructuring and the task of and demand for enterprise restructuring in 1985.

Yuan Baohua points out that, under the new situation of the accelerated pace of our urban reform, the pace of enterprise restructuring in 1984 has also been accelerated and the quality of restructuring improved. This is manifested in the following characteristics: The close integration of restructuring and reform. Through reform, the longstanding and difficult problem of "cracking what is tough" in the restructuring in the past has been solved by means of effective measures. The designated goal for 1984 has been attained. Roughly 70 percent of the state-run enterprises within the national restructuring plan have passed the restructuring criteria. Of these, the large and medium-sized core enterprises which have passed the restructuring criteria totaled over 95 percent. Through restructuring, the enterprise leading bodies have improved to a certain extent the conditions of aging, overstaffing, low cultural level and irrational professional structure. According to statistical analysis, after readjustment, roughly 30 percent of the leading bodies of the large and medium-sized core enterprises have met the cultural standards, attained a more rational professional structure, embraced the spirit of creativeness and demonstrated the ability to open up a new situation. The pilot work involving the system of responsibility by the factory chief has been gradually expanded from the 191 enterprises in the 6 cities of Beijing, Tianjin, Shanghai, Shenyang, Dalian and Changzhou to the various regions and various sectors. By late November last year, 2,913 enterprises throughout the country had implemented the system of responsibility by factory chief. Motivated by the reform, many enterprises



have strengthened the work of opening up the market, making policy decisions concerning business, and developing technology. The basic work of enterprise management has been strengthened and the modernization of enterprise management has been promoted. Inside the enterprise, contracting at all levels has been implemented, further perfecting and developing the responsibility system and promoting the reform of the organization. We have further implemented distribution according to work, promoted the restructuring of the labor organization, simplified personnel and improved work efficiency. In the restructuring, we have conscientiously emphasized the building of enterprise staff and workers ranks, and have scored new achievements in our ideological and political work and our training of staff members and workers. There are already 15 provinces and municipalities where young and middle-aged staff members and workers have attained or approached a minimum requirement of 60 percent of their "two make-up" tasks. Over 9,000 people have formed the first group of enterprise managers and factory (and mine) chiefs throughout the country to take part in the nationwide examination. The average grade of the examination is 74.91 and the passing rate is 96.6 percent.

Yuan Baohua says that the enterprises which have undergone restructuring have generally scored higher economic results than the average enterprises. For instance, in Jilin Province, the 357 enterprises which have passed the restructuring criteria have registered a growth of 25.9 percent, 33.5 percent and 1.65 times in output value, income from sales and realized profits respectively, while the other enterprises throughout the province have registered a growth only at 12.1 percent, 14.2 percent and 28.2 percent respectively.

In discussing the overall requirements and general tasks of the all-round restructuring of the enterprises in 1985, Yuan Baohua points out: In 1985, we must implement in depth the resolutions of the CPC Central Committee on the reform of the economic system, firmly emphasize the strengthening of this central link of the vitality of the enterprise, take party rectification and reform as the motive force, and unswervingly do well from start to finish in order to guarantee the quality and quantity of the fulfillment of the task of enterprise restructuring.

Those enterprises which have passed the restructuring criteria must fully emphasize reform well in order to consolidate and develop the results of the restructuring. Those enterprises which have not accomplished their restructuring task must closely integrate enterprise restructuring with reform and emphasize the various restructuring tasks in the midst of reform. Those state-run enterprises which are listed in the national plan for restructuring must strive to carry out restructuring well in the first half of 1985 or at the latest before the end of the third quarter. Toward the large and medium-sized core enterprises, we must find out the crux of the problem and adopt well-directed and effective measures to carry out restructuring properly in the first quarter of 1985.

In order to realize the above-mentioned goals and requirements, we must practically and realistically emphasize the following tasks:

## I. Further Readjust and Build Enterprise Leading Bodies Properly, and Promote the Factory Chief Responsibility System in a Planned Manner and Step by Step.

In the last few years, although we have already readjusted the enterprise leading bodies, after readjustment many enterprise leading bodies still lacked a pioneering spirit. As a result, to this day they have not been able to create a new situation. Thus, the further readjustment of the enterprise leading bodies properly, especially the leading bodies of the large and medium-sized core enterprises, is still the key to the work of reform and restructuring in 1985. In accordance with the needs of implementing the system of responsibility by factory chief, we must further readjust the leading bodies of the large and medium-sized core enterprises in the first half of 1985. Those large and medium-sized enterprises which are equipped to do so must select and equip themselves properly with a factory chief, a chief engineer, a chief economist, a chief accountant and a party committee secretary. They must also correspondingly reduce the number of deputy factory chiefs. They must clarify the duties and division of labor of the "the engineer, the economist and the accountant," and continue to sum up and gradually perfect the system in practice. In restructuring and building the enterprise leading bodies, we must conscientiously emphasize the building of ideology and style of work and the building of a profession, we must integrate this work with the party rectification, and must practically and realistically emphasize the work of the system of responsibility by factory chief.

## II. Further Implement the Various Enterprise Reforms and Promote the Modernization of Management.

We must conscientiously examine the situation of the implementation of the "ten articles on expanding power," and truly render in full the appropriate power to the enterprise. As for the enterprise itself, it must work hard to bring its initiative and creativeness into play, rely on its strength to achieve revitalization, and absolutely not wait around for the central authorities to suggest methods of work. In order to promote the shift in enterprise management from a productive model to a business and creative model, we must first of all attain the following:

A. In guiding ideology, we must recognize the socialist economy as a planned commodity economy on the basis of the system of public ownership and consciously make use of market mechanism and economic levers to launch commodity production and business properly. We must clearly establish the strategic viewpoint, market viewpoint and competitive viewpoint in business, face the international and domestic market, face the customers, and establish a clear strategic goal for business.

B. In organization, we must reform the enterprise international organization, strengthen the organization and force for technological development and development of skilled personnel, and set up foreign and domestic sales channels and an information and service network. In cases where an enterprise possesses its own funds, we must pay special attention to strengthening financial management, perfect the financial system and impose strict financial and economic discipline.

C. In the development of skilled personnel, we must have strategic vision, and strengthen the training of cadres and workers. We must not train and use a few people, but must train and select large numbers of skilled personnel and bring their intelligence and wisdom into full play.

D. In technological development, we must adapt to market fluctuation, continue to develop new products, and guide consumption with those products that are technologically advanced, come in many varieties, and are high in quality and low in price, in order to satisfy the needs of society.

At the same time, we must further seek to establish a socialist modernized enterprise management system with Chinese characteristics and make use of modernized management methods and measures on a popular and effective scale.

III. Further Restructure and Perfect the Economic Responsibility System Within Enterprises with Contracting as the Key.

We must integrate the reform of the personnel system, the labor system and the selection and employment of personnel, the proper restructuring of labor organization, the improvement of the level of fixed personnel and fixed quotas, and the development of tertiary industries and the collective economy for the purpose of placing surplus personnel, with the perfection of the economic system of responsibility. This year, the enterprises must launch wage reform, closely link the wages of the staff members and workers with enterprise results and individual contributions, and include most of the bonuses in the wages.

IV. Vigorously Develop Skilled Personnel and Enhance the Training of Staff Members and Workers.

In light of one's own division of labor and planning, formulate professional and technological criteria for the various categories of cadres and workers and use them as the basis for launching training. We must adopt multichannel, multilevel and multiform methods of running schools and gradually formulate a cadre and worker educational system on different scales, with the city--especially the large and medium-sized city--as the basis.

V. Vigorously Strengthen Enterprise Ideological and Political Work, and Launch the Building of a Socialist Spiritual Civilization.

We must carry out propaganda and commendation without delay on those advanced figures who are good at reform and bold in blazing new trails. At the same time, we must also pay attention to solving without delay tendentious ideological problems which have emerged in the reform and restructuring. We must further strengthen the building of "civilized units," launch activities of competition in rendering meritorious service, the activity of reviving reading in China as well as other sparetime cultural and sports activities which are healthy, useful, rich and colorful.

The task of enterprise restructuring in 1985 is extremely arduous. We must carefully restructure many enterprises experiencing confusion in management, multiple problems, and considerable difficulty with restructuring. Thus, the

various localities and various sectors must further strengthen the leadership over the work of restructuring. We must reform the method of examination before acceptance, and resolutely prohibit and correct formalism in examination before acceptance in regard to restructuring. In examination before acceptance in regard to restructuring, a few units have manifested unhealthy tendencies of extravagance and waste, bribery with dinners and gifts, and fraud. We must deal very seriously with these cases. While paying attention to examining whether the restructuring of an enterprise is up to standard, we must also examine whether implementation of the reform measure is effective. We must assess the restructuring and reform of an enterprise at the same time and must not depart from reform and emphasize restructuring in an isolated manner.

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CSO: 4006/650

NATIONAL POLICY AND ISSUES

WAGE REFORM IN STATE ENTERPRISES DISCUSSED

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 2, 5 Feb 85 pp 15-17

[Article by Ma Yibiao [7456 4135 2871]: "Discussing Wage Reform in State-Run Enterprises"]

[Text] For a long time, due to leftist influences and the corrupt practice of a rigid economic system, we have accumulated many problems concerning the distribution of wages. First, the wages of the enterprise staff members and workers did not increase in a planned manner and in proportion with the development of production. We did not have a normal promotion system for staff members and workers, and the wage level was generally low. Second, wages of staff members and workers were divorced from the labor contribution of the individual; there was discrepancy between labor and remuneration. Consequently, it made no difference whether one did more or less work or better or poorer work. There was a lack of a rational difference. Third, there was overcentralization in wage management. The higher level was too meticulous and too inflexible in management. These problems have dampened the enthusiasm of the broad masses of staff members and workers in production and caused enterprises to lose vitality.

Strengthening enterprise vitality enterprise is the key to the reform of the entire economic system. To have vitality, a very important factor for the enterprise is to handle smoothly the system of wage distribution. Only then can we better mobilize the enthusiasm of the enterprise and the broad masses of staff members and workers.

Currently, the entire economic situation is excellent. Industrial and agricultural production are rising steadily. The industrial enterprises have realized a synchronous growth in production, taxes and profits delivered to the state, and financial revenue. Financial revenue has increased by a relatively wide margin. The factors and timing for an all-round reform of the enterprise wage system have become mature. Reform is necessary. The development in depth of the reform of the entire economic system has created conditions for wage reform in the enterprises. The reform of the wage system will in turn accelerate the progress of the overall reform of the economic system.

In the enterprise wage reform, we must implement the socialist principle of distribution according to work, overcome egalitarianism and solve the problems of discrepancy between labor and remuneration and low income levels for the staff members and workers, and gradually establish a socialist system of wage distribution with Chinese characteristics. The most important reason why we have been able to score major progress in our rural reform and realize this fine situation in the rural areas is because we have implemented the contract responsibility system, overcome the "same big pot" of egalitarianism, and truly realized the principle of distribution according to work. This basic experience of the rural reform can similarly be applied to urban reform. The "Resolution of the CPC Central Committee on the Reform of the Economic System" points out that: "With the popularization of the substitution of tax payment for profit delivery and the popular establishment of diverse economic responsibility system in the enterprises, the socialist principle of distribution according to work will be further realized." "In the future, we must still adopt the necessary measures to link wages and bonuses of the enterprise staff members and workers to improvement of economic results." "We must permit some enterprises and some people to become rich first through relying on diligent labor." This clearly indicates the direction for enterprise wage reform. To realize this demand, we must abide by the following principles:

1. We must uphold the interest relationship among the state, the collective and the individual, make rational arrangement for the proportionate relationships between accumulation and consumption and between production development and the growth of wages of the staff members and workers. On the basis of developing production and improving labor productivity, we must gradually improve the wage level of the staff members and workers.

2. We must do a better job of linking wages of the enterprise staff members and workers to the enterprise economic results, and truly bring into play the role of wages in promoting production development, promoting technological progress, and gradually improving the livelihood of the staff members and workers.

3. In regard to the distribution for the staff members and workers inside an enterprise, wage differentials must be increased, grade levels extended, and fully embody the differences between mental and manual labor, between complex and simple labor, between skilled and unskilled labor, and between strenuous and non-strenuous labor.

4. Under the guidance of the state's unified plan and principle and policies, we should implement management at separate levels and expand the decision-making power of the enterprise in such aspects as wage distribution.

The following are main ideas on how to reform enterprise wages:

1. The wages of the enterprise staff and workers can fluctuate with the rise and fall of economic results. Through a comprehensive balance, the state has correspondingly arranged for the growth of the wage bill of the enterprise staff and workers according to the growth of national income. This will be implemented in the medium-term and long-term plan and the fiscal plan to

guarantee the planned and proportionate growth of the real wages of staff and workers along with the development of production. In accordance with the state plan and relevant principles and policies and on the basis of fixed personnel and fixed targets, the higher-level departments must check and ratify the enterprise wage bill, establish a base figure linking this target to results, and determine the fluctuating ratio linking the total wage bill to economic results. We must select a "linked" target that fully represents enterprise economic results and social results. Generally, an industrial enterprise can use the taxes and profits delivered to the state as the linked target. Those enterprises with products urgently needed by the market or single-item products can also use the output of the final product as this target. In order to prevent the onesided pursuit of profits or the tendency to emphasizing quantity and downplay quality, regardless of which type of linked target we adopt, we must take as our prerequisite for wage fluctuation and growth the complete fulfillment of the various economic and technological quotas stipulated by the state. The base figure linking results to the target can be the actual figure from the preceding year or can be the average of the actual figures of the preceding 3 years. The fluctuating ratio of wages to economic results must be separately determined by the enterprise economic results, good or bad, and, according to state parameters, reflect the differences between enterprises. For those enterprises which have a small profit margin because they operate strictly according to policy, we must render special consideration as necessary or establish a different method for wage growth when determining the base figure linking economic results to wage targets and the fluctuating ratio linking total wages to economic results.

2. Change the method of direct control by the state over every individual. In the future, the state will only transmit to the enterprises the planned quotas for the number of staff members and workers and the wage bill, and stipulate the fluctuating ratio of wages to economic results. It will no longer make unified arrangement for the wage readjustment of the staff members and workers. The enterprise will, in accordance with its own economic ability and labor performance of the staff members and workers, determine whose wages will be readjusted and when they will be readjusted. At the same time, we must take into consideration the fact that the enterprise is a material production unit and is different from a government or professional unit. After implementing the method of the fluctuation of the wage bill of the enterprise staff members and workers with the economic results, the readjustment of the wages of the staff members and workers should no longer follow the method of the government or professional unit. Thus, we cannot say that when the wages of the staff members and workers of the government or professional units are readjusted, the wages of the enterprise staff members and workers must, in general, be readjusted also. We should no longer eat out of the "same big pot." Rather, the enterprise should take the initiative to arrange for the wage readjustment for the staff members and workers in light of the possibility of the growth of the wage fund itself.

3. We must change the method of issuing bonuses in large amounts. The increased wage fund of an enterprise should primarily be used in launching the wage reform. As a form of remuneration for surplus labor, the appropriate increase in bonus issuance is necessary under the circumstance when there is the absence of a normal promotion system and when the income level of the

staff members and workers is on the low side. However, it cannot effectively realize the proper function of wages and cannot encourage in a better manner the staff members and workers to improve their technological and professional qualities in an all round manner. It is not the most complete form. Thus, the enterprise should use most of the increased wage fund in the wage reform. It can also use a small portion to reward those staff members and workers who have made outstanding contributions in production, work and technological progress. This is also consistent with the wishes of the broad masses of staff and workers.

4. In the distribution among the members and workers inside an enterprise, we must take into consideration the individual's labor contribution. Then, with the fluctuation of the business--good or bad--of the enterprise, we will reward the industrious and penalize the lazy, reward the outstanding and penalize the inferior, and implement more pay for more work and less pay for less work, so as to change the situation of the inconsistency between labor and remuneration and of promotion without demotion. Presently, some enterprises have separated wages into basic wages which guarantee the basic livelihood needs of the staff members and workers, the positional (functional) wages which encourage the staff members and workers to work hard to continuously master new labor skills, rewards which urge the staff members and workers to work hard to improve productivity, and allowances which protect the special interests of the staff and workers. The implementation of a structural wage system has scored relatively good results. This structural wage system can effectively realize the various functions of wages and is beneficial to overcoming the existing malpractices in wages. It deserves study and trial implementation. As to which form of distribution and which wage system to adopt, an enterprise should consider its production and work characteristics, and can be flexible and diverse in its approach. Arbitrary uniformity is not necessary.

In reforming the enterprise wage system, we must of course not only study the above issues. Here, I have only discussed some major aspects. Presently, the central authorities have already clearly pointed out the direction for us. The most opportune moment for reform has arrived. Thus, we should do a good job of ideological preparation and specific preparations to welcome this major reform. The implementation of the fluctuating wage-returns ratio is a fundamental reform of the enterprise distribution system. This reform has produced motive force as well as pressure for the enterprise. Whether or not the income of the staff members and workers can increase on a larger scale and whether or not the actual wages can double and redouble by the end of this century will depend entirely on the hard work of the enterprise and staff members and workers themselves. As long as we stand on our own two feet, direct our view inward, try by each and every means to promote the development of production and work hard to improve economic results, we will definitely be able to realize this goal.

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CSO: 4006/650



18 July 1985

## NATIONAL POLICY AND ISSUES

## LEASING RECOMMENDED AS A NEW WAY TO INTRODUCE TECHNOLOGY

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 2, 5 Feb 85 pp 20-21

[Article by Tai Hengxin [0669 1854 1800] of the Maanshan Iron and Steel Design Research Institute: "Leasing--A New Channel for Importing Technology"]

[Text] As a business mode, leasing has only been used in international economic and technological professional activities in the last 20 years. In order to revive their economy, the governments of many countries have promoted the implementation of the plans for development stipulated by the state and vigorously supported the international leasing cause. For instance, providing low-interest loans, tax reduction, and permission to accelerate depreciation for the leasing companies have created favorable terms for leasing in professional activities and enabled leasing to play an increasingly powerful role in the social economy. The contents of the leasing business include almost anything, from general machinery and instruments to office equipment. In recent years, the computer, the airplane, various kinds of heavy-type equipment and assembly lines, as well as various kinds of technological secrets, have also become leasing items.

The leasing business has flexible and diverse modes, the most common one being the following: When an enterprise needs to procure equipment or import technology but lacks sufficient foreign exchange to make this a reality, the leasing company can procure the equipment and technology needed, and then lease the equipment and technology to this enterprise. The enterprise will pay rent according to the leasing contract and will be responsible for the maintenance and management of the equipment under lease. In accordance with its ability to pay rent, an enterprise can sign leasing contracts with the leasing company for the term of 1 year or 10 years or even longer. At the end of the term, if it is willing, the enterprise can keep the equipment by paying only a very small amount of "remaining value," and the property right over that equipment will be automatically transferred to the enterprise.

As for the "remaining value" of the leased equipment at expiration of the lease, the U.S. Internal Revenue Department has stipulated that the "remaining value" of that equipment which is under formal lease must not be less than 15 percent of the original price when the period of lease is within 18 years, and must not be less than 20 percent when the lease covers more than 18 years. At the same time, it has stipulated that, at the end of the term of lease, the

surplus length of service of the equipment must not be less than 20 percent or 2 years of the total length of service, the shorter the more accurate. However, in actual implementation, the leasing company hopes to fix a lower cost for keeping the equipment in the contract.

As for those machines with strong universal character, such as overweight equipment, automobiles, copy machines, computers and various construction machines, the leasing company also handles a rental business and returns the machines after use. This is a leasing mode with service as the key. The lessor is responsible for the repairs and maintenance of the leased equipment. Thus, superficially, the rent is higher than the former. However, this includes the technological service by the lessor. Comprehensively speaking, especially for those users which only need this equipment temporarily, the total expenses are still more economical.

The import of technology through leasing embodies the following advantages:

1. Little investment and fast results in the initial period. Adopting the leasing mode to import equipment and technology, the user can first pay 10 to 15 percent of the full cost as security deposit. He can then put the entire equipment into operation and pay rent by installments as stipulated by the leasing contract. Thus, adopting the leasing mode in importing equipment and technology involves little investment in the initial period. Some leasing companies do not even require security deposits, and only ask for payment of rent after the equipment has been installed, tested, and approved by the lessee upon examination.

The enterprise can also use the profit created by the leased equipment itself to pay rent and earn profit at the same time. In this way, those enterprises which lack the funds can also use the advanced equipment from abroad.

2. It is beneficial to the technological transformation and equipment updating of old factories. Adopting the leasing mode, the old enterprises can utilize foreign funds to import advanced technology and equipment and carry out technological transformation accordingly. They can use little or no investment by the state. At the same time, they can bring into full play the potential of the original workshops and manpower. Relying basically on the strength of the enterprises themselves and under the assistance of the leasing companies, they can realize technological transformation. In addition, leasing is different from the purchase of equipment through payment by installments. The property right of the leased equipment belongs to the leasing company. At the end of the term of lease, if the user does not feel that this equipment has met the requirements, he does not have to buy it. The leasing company will make other arrangements for the equipment. The enterprise can then lease other more advanced equipment. This is extremely beneficial to the enterprise in renewing equipment and realizing greater economic results.

3. Low cost and exemption from import tax. Leasing is a business form for bringing in and utilizing foreign capital and is encouraged by our government. The state has stipulated that the projects which bring in foreign capital will be exempt from import customs tax and import industrial-commercial taxes. In

addition, the fees of the leasing companies are lower than the average foreign trade companies. Generally, in importing equipment through the foreign trade companies, we must make a one-time payment of the loans plus 3 percent service charge. However, the projects with 1 year's lease imported through the leasing companies, such as the U.S. direct-reading spectrograph which a certain steel mill has leased through the China Dongfang Leasing Company, involve two payments, one made every 6 months. At the end of the term of lease, the steel mill only needed to pay \$1 of "remaining value" to keep the spectrograph. Besides the price of the instrument, the fees which the leasing company has collected are less than 2 percent of the cost of the product. The reason is as follows: According to our country's existing "Detailed Regulations Involving the Income Tax of Foreign Enterprises," the leasing company can enjoy the preferential terms of tax exemption and accelerated depreciation (the period of depreciation of equipment can be based on the period of lease), and in turn enjoy these advantages with the lessee. Thus, the leasing fee is relatively low.

4. Simple and rapid procedures and good service. When a unit needs to import foreign equipment and technology through leasing, the enterprise must first of all apply for the examination and approval of the department in charge before setting up an import project. After approval, the enterprise, with the letter of approval in hand, can negotiate with the leasing company on the matter of leasing. In accordance with the demands of the lessee, the leasing company will rapidly dispatch its organ or delegation to various places in the world to collect relevant materials on the manufacturing and market prices. The leasing company and the lessee will assess these materials together and select the relevant manufacturer accordingly. The leasing company will then dispatch a formal inquiry for prices, and will negotiate with the lessee on the terms of lease. After receiving the quoted prices and technological materials from the manufacturer, the leasing company will notify the user immediately, and, together with the user, carry out technological and price talks with the manufacturer. After the basic terms have been settled, the lessee and leasing company will sign a leasing contract. Then, according to the document for examining and approving import and permit provided by the lessee, the leasing company will sign a contract with the manufacturer on purchasing the equipment or technology, and make payments for the goods accordingly. According to the terms of the contract, the manufacturer will deliver the goods directly to the lessee and notify the leasing company in the meantime. The manufacturer and leasing company will be responsible for the installation and debugging of equipment. After a trial run of the equipment, the lessee will begin to pay rent after signing the letter of acceptance upon examination. Within or after the period of warranty, the leasing company will assist the lessee to make contact with the foreign businessmen on any problems concerning the equipment. In the case of the import of foreign equipment through foreign trade companies, the user is responsible for holding discussions with foreign businessmen on technological issues, while the foreign trade companies are responsible separately for conducting talks with foreign businessmen on commercial issues such as prices. Leasing is different, however. In the entire process of carrying out negotiations with foreign businessmen in technology and prices, the leasing company not only asks the user to participate but uses the user as the advisor. It conveniently utilizes its wide contact with the rest of the world to collect

information and master the market situation, carries out study and comparison together with the user and fights for favorable terms for the user in the midst of the negotiations with foreign businessmen.

5. It is beneficial to the financial management and accounting of an enterprise. Without the property right of the leased equipment, the enterprise that rents the equipment does not need to handle loans, payments to the manufacturer, depreciation, taxation and insurance, and so forth. The enterprise also does not need to include the leased equipment in its fixed assets. However, the rent can be calculated into the cost and can avoid heavy taxes.

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CSO: 4006/650

18 July 1985

## NATIONAL POLICY AND ISSUES

## MONETARY FUNCTIONS OF FOREIGN EXCHANGE ANALYZED

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 6, 5 Nov 84 pp 24-27

[Article by Zhou Shengye [0719 0581 2814]: "The Effects of the Transaction Volume of Foreign Exchange on Credit Supply and Monetary Circulation"]

[Text] Ever since the 3d Plenum of the 11th CPC Central Committee and the implementation of the policies of opening up to the outside world and of enlivening the domestic economy, China's external economic intercourse has steadily increased, foreign trade has expanded and foreign exchange earnings and outlays have shown a correspondingly rapid rise. Foreign exchange serves as a form of foreign currency transaction and of exchange of capital, and thus the transaction volume of foreign exchange affects domestic credit supply and monetary circulation, and the magnitude of this effect is arousing increasing attention and concern. Foreign exchange used in trade accounts for most of our total earnings and expenditure of foreign currency. According to statistics, exchange receipts derived through trade account for more than 80 percent of all foreign-currency earnings, and exchange used to pay for imports accounts for 80-90 percent of all foreign currency expenditures. Thus this article will focus primarily on the volume of foreign exchange used in trade and analyze the effect of this volume on domestic credit supply and monetary circulation.

#### I. The Intrinsic Link between Foreign Exchange Used in Trade and Renminbi Funds

Foreign exchange used in trade derives from commodity exports, and the process can be simply expressed as follows: Production of export commodities---> procurement of such commodities---> organization of exports--> foreign exchange earnings. From this expression, we extract the following points.

First, before a unit can earn foreign exchange, it must first spend Renminbi. Enterprises producing exports must make advanced outlays of circulating or fixed funds to purchase raw materials and equipment and pay for wages. Foreign trade enterprises must have large amounts of commodity funds in order to organize procurement and export sales. Only when these expenditures are made can one expect to earn foreign exchange. Thus foreign exchange does not

grow on trees; rather, it is fair to say that earnings thereof represent a transformation of advanced expenditures of Renminbi. In common parlance, the situation is a matter of earning 1 dollar in foreign currency in return for expenditure of a number of yuan in Renminbi.

Second, according to China's regulations governing control of foreign exchange, enterprises and units enjoying earnings of foreign exchange must, with the exception of the amounts they are specifically permitted to retain, sell the rest of those earnings to the Bank of China, which gives them Renminbi in return. In other words, enterprises and units holding foreign exchange must promptly transform those holdings into Renminbi. Suppose a unit manages both the production and sales of exports. That unit's fund turnover could thus be expressed as follows.

G (funds in Renminbi)---w...p...w'---(exports)---G' (foreign currency)---G' (Renminbi). Here we can see that Renminbi and foreign exchange are constantly transformed into each other during fund turnover.

Third, during fund turnover and the transformation of G into G', the cycle begins when enterprises make investments in Renminbi (G) and can be said to have ended when the enterprises obtain returns in Renminbi (G'). These returns can be used to purchase raw materials and other means of production, thus initiating a new cycle of production or procurement, or to pay off previous bank loans. However, at the national level, this fund turnover cycle is not yet completed at this stage. For when the enterprise sells its foreign currency earnings to the state (the Bank of China) in exchange for Renminbi, the state now holds foreign exchange. Foreign exchange represents funds in the form of money (expressed in foreign currency). In this situation, these funds are temporarily removed from the process of reproduction, which situation differs from the idling of Renminbi in the domestic economy. In the latter, when an enterprise holds Renminbi, this means that, for that enterprise, these funds are idled. But from the standpoint of the entire society, those funds are not really idle. This is due to the existence of bank credit, for the funds are lent by banks to other enterprises and thus reenter the process of reproduction. This situation does not obtain in the case of foreign exchange earned through trade, which, instead, represents a claim China holds against foreigners and is held by foreign businessmen. Even if we were to earn interest on these funds, the latter would not enter domestic reproduction. This means that, at the national level, the originally invested Renminbi have not yet completed a full turnover cycle. Only when this foreign exchange is used to import technology, equipment or important goods and materials is the process truly complete.

Thus it is apparent that the transaction volume of foreign exchange is closely interrelated with Renminbi investments and returns. With the exception of a small amount of funds raised by enterprises themselves, most of the Renminbi investments those enterprises make must come from fiscal allocations or through credit, especially bank loans. Thus we must look at the interrelationship between the foreign exchange volume and credit supply.

## II. The Interrelationship Foreign Exchange Volume and Credit Supply during Fund Turnover

We shall start with the expression for fund turnover provided above:  $G$  (funds in Renminbi)--- $w...p...w'$ ---(exports)--- $G'$  (foreign currency)--- $G'$  (Renminbi). Whether from Renminbi into foreign exchange or from foreign exchange back into Renminbi, each of the transformations in this cycle involves domestic credit supply.

In the transformation from Renminbi investment into foreign exchange, banks must provide many types of loans, the principal of which are as follows.

1. Loans of circulating funds to finance export production. These are used to purchase raw materials and other means of production, to pay wages and to organize production of export commodities.
2. Intermediate- and short-term loans to pay for equipment used in export production. These provide a form of fixed funds and are used to purchase and replace machinery and equipment and to steadily increase productive capacity and technological levels.
3. Commodity circulation loans. These are extended to foreign trade enterprises specializing in procurement and marketing, are employed by enterprises in their procurement and marketing activities, and are used to provide the funds needed when goods are tied up in storage or in transit.

Once banks undertake management of all circulating funds, most of the funds producing enterprises reasonably require, with the exception of a small amount that can be defrayed out of enterprise retained profits, will be provided through bank loans, and the state will no longer make up any shortfalls. Commodity funds used by foreign trade enterprises, on the other hand, have for the most part always been supplied through bank loans. Thus if we are to raise exports and foreign currency earnings, we must first make corresponding increases in Renminbi investment, which actually means we must appropriately increase bank loans. If we take into account the facts that the procurement and sales of most export commodities are managed by foreign trade departments, that the funds employed by export production enterprises ultimately become involved in circulation and thus that these funds appear as commodity funds used by foreign trade enterprises, then even if we omit production reserves ( $w$ ) and the loans needed for production ( $p...$ ) in the cycle  $G$  (funds in Renminbi)--- $w...p...w'$ ---(exports)--- $G'$  (foreign currency)--- $G'$  (Renminbi) and consider only loans used to supply foreign trade enterprises with commodity funds ( $w'$ ), we would discover that there is a direct and homologous relationship between the amount of loans extended to foreign trade enterprises and the transaction volume of foreign exchange. The exact, quantitative nature of that relationship is determined by the following factors.

1. The volume of foreign exchange used in trade. As this volume increases, more funds are required to finance commodity turnover and storage, and more loans are needed to supply these funds.

2. The amount of funds required to procure and market exports. If this amount does not change, foreign exchange volume and the amount of loans needed to supply these funds will rise at a similar rate. If the amount declines, less credit will be needed to maintain the same volume of foreign exchange.

Above, we analyzed the homologous relationship between the transaction volume of foreign exchange and the amount of credit enterprises require in the process of transforming Renminbi into foreign exchange. Now we shall examine conditions during the transformation of foreign exchange back into Renminbi, that is, the effect of the volume of foreign exchange enterprises sell to banks on the amount of credit banks can extend. As noted above, the sale by enterprises of foreign currency to banks may be said to mark the completion of the turnover cycle for the Renminbi funds invested at the outset. These Renminbi can be used to initiate another fund cycle, which action would not necessitate additional bank loans. Nevertheless, banks must use Renminbi to purchase the foreign exchange enterprises earn, and these outlays are generally known as "funds used to purchase foreign exchange" [hereafter, foreign exchange funds]. As surpluses in foreign exchange increase, the state holds more exchange reserves and banks obtain more foreign exchange funds. This is another manifestation of the homologous relationship between foreign exchange volume and credit supply and is reflected as an increase in banks' foreign exchange funds. Thus it is apparent that foreign exchange volume affects credit supply in two ways: first, in loans to enterprises undertaking export production and circulation and, second, through foreign exchange funds. If foreign exchange volume increases but its balance does not change significantly, the former effect (on loans) will occur. And if volume increases and there is a large exchange surplus, then the supply of both credit and foreign exchange funds will be affected.

Because of this close interrelationship between the transaction volume of foreign exchange and credit supply, unified arrangements must be made for both. First, if China is to expand her exports and earn more foreign exchange, banks must extend an appropriate amount of credit to fund export production and circulation. These arrangements would entail both supplying the funds needed to expand exports and to earn more foreign exchange and adopting some of the forms of credit employed abroad so as to promote exports and make exporting more convenient. An actual example of the latter are loans extended to purchasers of exports, which practice we have implemented on a experimental basis in recent years. Second, we must make appropriate arrangements, based on estimated trends in our foreign exchange balance, to provide banks with the requisite foreign exchange funds. However, we must also make sure that we hold our foreign exchange surplus within certain limits. A surplus means that the state controls a source of funds and thus is an indication of national economic strength. Yet we must also realize that increases in that surplus indicate that our Renminbi investments have not been fully used to expand domestic production, and we should remember that increases in that surplus can affect domestic monetary circulation. Thus to ensure smooth import and export operations and our ability to pay for foreign goods and services, we must build a certain amount of foreign exchange reserves, but these reserves should not be allowed to become too great. This means that, when expanding exports and foreign exchange volume, we must be



sure to make arrangements for the use of foreign exchange and to avoid blind creation of overly large surpluses.

In addition, we must also give full play to the counter-effects of credit. Bank loans to enterprises come first in the fund turnover cycle, and enterprise earnings and receipts of foreign exchange come later. Thus we can promote foreign exchange earnings by strengthening our control and management of credit. When granting loans, we must be sure to select the best projects for support; render vigorous assistance to those exports that are low in cost and that earn high prices, large profits and large amounts of foreign exchange; strictly limit those exports that are high in cost and that produce large losses and little foreign exchange; prevent serious overstocking among foreign trade enterprises; and thus ensure that a rational proportional relationship is maintained between foreign exchange volume, product inventories and bank loans.

### III. Foreign Exchange Volume and Monetary Circulation

We know that credit supply affects the volume of money (savings and cash) in circulation in our economy. Thus when studying the interrelationship between the transaction volume of foreign exchange and credit supply we must also examine that relationship from the point of view of monetary circulation so as to obtain a deeper understanding of the matter.

Foreign exchange is a means of payment that is expressed in foreign currency and used to settle international accounts. Thus foreign exchange forms a relatively independent system of monetary circulation and is used to facilitate international commodity exchange. Yet what we are concerned about here is the effect of the foreign exchange volume on domestic monetary circulation.

Enterprises and units earn foreign currency through trade and sell this currency to the Bank of China in exchange for Renminbi (savings and cash). As banks' foreign exchange funds increase, there is a corresponding rise in the volume of savings and cash, both of which are used as means of circulation and payment in the domestic market, and thus there is an expansion in the volume of savings and cash in circulation. Similarly, when using foreign exchange, enterprises and units first take Renminbi (in savings or cash) to the Bank of China to purchase foreign currency, which creates a corresponding reduction in the volume of savings and cash in circulation. It is precisely for this reason that a surplus in foreign exchange involves both an increase in bank credit outlays (foreign exchange funds) and an expansion in the supply of money. This means that, when analyzing foreign exchange volume, we must take into account both funds and monetary circulation. And when we integrate analysis of foreign exchange volume, credit supply and monetary circulation, we obtain some new insights.

First, if there is a surplus of foreign exchange, banks' foreign exchange funds will show a corresponding increase. So long as this surplus remains within the limits needed to cover normal expenditures, foreign exchange funds can be obtained on a regular basis through the resulting increase in the money

supply. For in this instance, banks convert enterprise earnings of foreign currency by issuing Renminbi, then when foreign exchange is used again, banks sell that exchange and receive a corresponding amount of the original issue of Renminbi. Clearly, this foreign exchange surplus is the inevitable turnover surplus that is created in the transaction process, and the Renminbi issued in this process is required for intermediary economic turnover and can serve as the source of foreign exchange funds. Naturally, the situation is different if there is a large surplus of foreign exchange that cannot be used within a short period of time. Because some of this currency is not sold immediately, the Renminbi originally issued in exchange therefor cannot smoothly be withdrawn from circulation, which fact creates pressure on monetary circulation. Consequently, the increase in the money supply does not provide a regular source of foreign exchange funds and thus another long-term source must be sought.

Second, because foreign exchange represents varying mixes of export and import commodities, its volume also produces different effects on monetary circulation. China's money supply includes both cash and noncash elements. The former primarily serves to circulate consumption goods, whereas the latter mainly facilitates circulation of the means of production. If during a given period exports consist principally of agricultural, sideline, light industry and textile goods, and imports are comprised largely of the means of production, the domestic market for consumer goods will experience some pressure unless there is a great oversupply of the exported goods. Clearly, appropriate imports of important goods and materials that are in short supply domestically will help to invigorate and stabilize the market. Thus we must be attentive both to the domestic market and to monetary circulation when we plan imports and exports and foreign exchange volume.

We have always adhered to the following principles in correctly handling the relationship between foreign and domestic sales: We limit exports of those goods that affect the national economy and the people's livelihood. For those goods that are in short supply but that are important both on the domestic market and as a source of exports, we vigorously expand production and strive to export some of that output. And goods whose supply can either be increased or decreased without much effect on the domestic market are largely made available for export. Thus we have been able both to earn foreign currency and to stabilize domestic circulation. China's exports still consist mainly of agricultural, sideline and light industrial goods, minerals and textiles, all of which are closely linked to the domestic market for consumer goods. Thus to better adjust the relationship between the domestic and foreign markets, we must strive to rearrange our export mix, enable mechanical and electrical goods to break into the international market, and appropriately import needed and important goods and materials where supplies of foreign currency permit so as to enliven urban and rural markets and to make the people's living conditions more secure.

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CSO: 4006/547

NATIONAL POLICY AND ISSUES

GU MING DISCUSSES ECONOMIC LEGISLATION WORK

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 9, 11 Mar 85 pp 9-11

[Interview by Li Shangzhi [2621 1424 1807]: "Economic Reform and Economic Legislation: A Chat with Gu Ming"]

[Text] Reporters recently interviewed Comrade Gu Ming [7357 2494] on the current tasks of and planning for economic legislation work.

Gu Ming has long been engaged in economic and legal work, has served as vice minister of the State Economic Planning Commission and as vice chairman of the Legal Affairs Committee of the Standing Committee of the Fifth NPC and is currently a responsible member of the State Council's Research Center for Economic Law and president of the Chinese Economic Law Research Society. Very loquacious, he did not directly answer our questions at the beginning of the interview but rather started off with a brief explication of the current status of China's economic development and of the urgency of economic legislation. At this point, he turned serious and stated, "In the 6 years since the 3d Plenum of the 11th CPC Central Committee, China has promulgated 200-some economic laws and regulations, and there has been considerable achievement in economic legislation work. The promulgation and implementation of these laws and regulations represent the first steps toward changing the situation in which there were no legal bases or regulations to follow in China's economy. The tasks of China's economic legislation work are very serious and urgent, so we must accelerate this work before we can meet the needs of the new situation."

I. New Tasks in Economic Legislation under the New Situation

Comrade Gu Ming stated that all along China's economic front the CPC Central Committee's decisions regarding reform of the economic system are being put into effect, the policies of invigorating the domestic economy and of opening up to the outside world are moving forward, agricultural reform is advancing toward specialization and commercialization, industry is expanding greatly and evenly, product quality and economic results are improving daily, the commodity economy is developing rapidly, the market is more vigorous and fiscal revenues are steadily rising. As this reform deepens and as economic life quickens, agricultural, industrial, commercial, production, marketing and

sales units of different trades, regions and sectors have initiated many types of joint operations and cooperation, and many vigorous and intricate horizontal ties have emerged. Meanwhile, we are expanding technological exchange both at home and abroad, introducing large amounts of foreign capital and technology, instituting a system of compensated transfers of patents and technology, opening the technology market and advancing the commercialization of technology. These moves have created excellent conditions for the prosperity and development of China's economy.

"I wonder," he said thoughtfully, "if we can now say that, after 6-odd years of exploration and practice in our economic life since the Third Plenum, the rigid, impractical, highly centralized planned-economy model that was affected by the long-term influence of "leftism" and based solely on the system of public ownership has come to an end and whether or not a new system of a planned, socialist, commodity economy that possesses Chinese characteristics, is full of life, is designed to satisfy the people's growing material and cultural needs, is rooted in the system of public ownership, has many levels and incorporates many forms has begun to take shape."

He stressed, "This new situation requires that we place great emphasis on economic legislation. In our reform of the economic system, we will encounter many new situations, things and problems, and if we are to effect control without stifling the economy and to achieve flexibility without chaos, we must make greater use of economic and legal measures to organize, manage and lead economic work. This means that we must accelerate economic legislation work so as to meet the needs of the growing economy." He paused and continued, "Furthermore, we must realize that, as we enliven the economy and open up to the outside world, we must strengthen legal work so as to maintain order in the economy, prevent and crack down on criminal economic activity and ensure smooth progress in economic development."

"What are the new tasks of economic legislation at this stage?"

Gu Ming answered this question almost without pause for reflection. He said that the CPC Central Committee's decision regarding economic reform declared that "reform of the economic system and development of the national economy will necessitate the use of law to set norms for more and more economic relationships and activities" and that "state legislative organs must accelerate their work." This means that we must resolve the following issues in economic legislation work.

We must further our investigations and study, summarize new experience, use this work as a basis from which promptly to provide standards and laws for the party's programs and policies, and employ economic legislation to promote progress in reform.

We should act in accordance with decisions by the CPC Central Committee concerning the separation of administrative and enterprise responsibility, use economic legislation to define the functions of government agencies in managing the economy and give full play to those agencies' roles in formulating and supervising implementation of economic laws and regulations.

While establishing proper relationships between the state and enterprises and between enterprises and their employees, we should promptly formulate new laws using the rich experience obtained in all areas of economic reform, including the systems of planning, prices and taxation and wages and employ this legislation to regulate these areas.

While further expanding international interchanges of economic technology and summarizing our experience in economic legislation concerning foreigners, we should strengthen legislation for special economic zones and for economic-technology development zones and vigorously and carefully formulate urgently needed economic laws and regulations relating to foreigners.

## II. The Current Status of China's Economic Legislation Work

Comrade Gu Ming reviewed for us the general situation in China's legislation work since the Third Plenum, stating, "Since 1979, we have accelerated economic legislation work in order to meet the needs of invigorating the domestic economy and of the open door policy. In the last 6 years, the NPC Standing Committee has passed or approved 19 economic laws, and the State Council has promulgated nearly 200 sets of economic regulations. These laws and regulations are already playing important roles in our economic development and have produced marked effects."

He told us that, because we lacked legislative planning in the past, for more than 30 years we failed to formulate even laws basic to the socialist economy such as those governing land, grassland, mineral resources, labor and planning. However, the State Council's Economic Law Research Center formulated an economic legislation plan for 1982-86, which provided for 145 laws and regulations. By the end of 1984, 51 of these had been passed and promulgated, 11 had been drafted and submitted to the NPC Standing Committee or the State Council for deliberation, 27 draft laws and 15 sets of draft regulations are undergoing discussion and revision, and a number of laws and regulations that were not included in the plan have been completed.

Like a man enumerating his family's prized possessions, Gu Ming said, "To invigorate the domestic economy, we have formulated a number of sets of urgently needed economic legislation, such as the Economic Contract Law, the (Trial) Food Health Law, the Trademark Law, the (Trial) Environmental Protection Law, the Patent Law, the Maritime Transport Safety Law, the Forest Law, the Accounting Law, the Regulations Governing Price Controls, the Regulations Governing Urban Planning and the like. To promote and consolidate agricultural reform, we have formulated and promulgated a series of laws and regulations, such as regulations governing cooperative commercial organizations, individual transport and sales of agricultural and sideline products; rules governing the purchase, for the purpose of engaging in transport work, of motor vehicles, motorized boats and tractors by individuals or by two or more households jointly; and the like. To protect the individual economy, we have promulgated a number of policy rules relating to the urban, nonagricultural, individual economy and to individual commerce in the countryside. The promulgation and implementation of these economic laws and regulations have contributed greatly to the development of the socialist

economy, to the consolidation of the results of reform and to the improvement in the socialist legal system."

Gu Ming grew animated when got to the topic of economic legislation relating to foreigners: "In recent years, China has promulgated nearly 100 laws and sets of rules and regulations governing external trade. Of these, the NPC has passed 13 laws, the State Council has promulgated 40-odd sets of regulations, central departments have issued 30 sets of rules, and Guangdong, Fujian and special economic zones have passed 14 local statutes." He thought for a moment, then continued, "In terms of content, these laws and regulations may be divided into four general categories. The first type, which relates to measures governing joint ventures between Chinese and foreigners, is centered around the Sino-Foreign Joint Venture Law and Its Enforcement Regulations and includes regulations governing labor management in such ventures, enterprise registration and control of foreign exchange. The second type relates to taxation on foreigners and includes regulations governing taxation on the incomes of Sino-foreign joint ventures, foreign enterprises and individuals. The third type relates to intellectual property rights and consists primarily of the Trademark and Patent Laws. And the fourth type includes regulations passed by special economic zones and local legislation formulated by Guangdong to govern affairs in such zones."

He added, "Recently we have joined some international pacts and signed some bilateral treaties. In addition, the Research Center for Economic Law has organized relevant agencies for a discussion and revision of some of the laws dealing with foreigners, and we are devoting great effort to the drafting of such laws." He candidly stated, "China's legislation relating to foreigners is not suited to the new situation and does not meet the needs of the open-door policy. Thus our tasks in this area are quite heavy and very pressing." He expressed the belief that, as we devote ourselves to this work, we must thoroughly deliberate those issues that are very sensitive and that affect the overall situation, and he stated that we must use legislation to resolve such issues.

### III. This Year's Plan for Economic Legislation

When we asked about planning for legislation work in 1985, Gu Ming smiled and said, "This year marks the beginning of full-scale implementation of economic reform and further opening to the outside world. This situation makes it necessary for us to place great emphasis on the formulation of a number of important economic laws and regulations."

He informed us that the Research Center for Economic Law has solicited ideas from relevant departments and some localities and drawn up an initial draft plan for economic legislation in 1985, which includes four parts. The first is to strive to draw up and submit to the NPC or its Standing Committee 17 draft economic laws. Five of these laws have already been sent to the Standing Committee for deliberation. The second part is to organize the drafting of 20 laws and to strive to submit these to the NPC Standing Committee in 1 or 2 years. The third is to strive to submit 15 sets of regulations to the State Council for deliberation. And the fourth part is to begin drafting 40 sets of regulations this year and to strive to submit these

to the State Council within 2 years. He explained, "Legislative work requires a certain amount of time to complete, and we need practical experience and must solicit the views of various departments, localities and quarters. Thus it is not easy to formulate a law or a set of regulations. At the fastest, a half a year or a year is required; at the slowest, the process can take 3 or 5 years. In planning work, we must both make arrangements to complete the current year's legislation and finish preparations for the legislation to be passed in the next year or two."

Gu Ming discussed his own views on how to accelerate economic legislation work.

The planned approach to legislation has proved effective in China. We must continue to stress planning, organizational and leadership work for economic legislation; proceed from objective need and possibility; distinguish the important from the unimportant and the urgent from the not so urgent; set timetables for legislation work; and organize forces to carry out drafting work so as to increase efficiency and speed.

We must formulate legislative procedures and standardize legislation work. Legislative activity forms a concentrated embodiment of national will and is closely related to policy. Legislation should be based on national interests and the party's policies. And legislative procedure should serve to maintain the efficiency of legislative activity and to reduce the steps and smooth progress in the process. Timeliness is of great importance in economic law. Needed new laws must be formulated promptly, and laws requiring revision must be taken care of at once. If decisions are not made in a timely manner, opportunities may be missed, which would not be beneficial to economic development and may even cause serious losses.

We should appropriately expand the legislative authority of the people's governments of provinces, autonomous regions and municipalities. As reform progresses, we urgently need to formulate corresponding laws and regulations to manage the resulting, increasingly complicated, multileveled and multiformed economic structure. Some of this legislation must be formulated as fast as possible, but for some, conditions are not ripe or we are not prepared to tackle that legislation, yet we still need rules to follow. China is a vast country, and economic conditions and productive levels vary greatly across different localities, so arbitrary uniformity cannot be imposed in legislation. Thus those laws that cannot immediately be effected on the national level but which are urgently needed at lower levels should be left to the latter to formulate as local regulations.

We must place emphasis on the ordering and compilation of laws and regulations. The sorting of existing laws, regulations and rules forms an important part of legislative work. The party's policies change with developing political and economic circumstances, the constitution has been revised several times, yet for more than 30 years our laws, regulations and rules have never been conscientiously collated. We should conduct this work now in order to eliminate the things that should be thrown out, revise those that need changing and make compilations of current and effective legislation so as to facilitate enforcement.

We must ensure that laws are followed, enforcement is strict and infractions are fully prosecuted. To achieve this objective, we must conscientiously enforce economic laws and regulations and strengthen supervision and investigation. For example, some units and individuals are violating China's Trademark Law, its regulations and other people's exclusive rights to trademark use; reckless deforestation and tree-cutting have occurred since the promulgation of the Forestry Law; and so on. Lax enforcement of economic laws and regulations is a widespread problem and with the further enlivening of the economy is bound to become more pronounced. Thus it is urgent that we strengthen enforcement, supervision and investigation and ensure that laws are followed, that enforcement is strict and that infractions are fully prosecuted so that we can uphold the sanctity of the law and maintain order in society and the economy.

He stated, "Some people have suggested that we establish administrative law courts and add provisions for criminal punishment where necessary in some economic laws and regulations. These ideas have merit."

At the conclusion of our interview, Comrade Gu Ming confidently declared, "China's economic legislation work has progressed very rapidly in the past few years, and results have been remarkable. The future tasks in this area will be heavy, but we definitely will do a good job."

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CSO: 4006/547



NATIONAL POLICY AND ISSUES

GUANGMING RIBAO DISCUSSES REFORM OF ECONOMIC THEORY

HK250701 Beijing GUANGMING RIBAO in Chinese 1 Jun 85 p 3

[Article by Ma Biao [7456 7516]: "Strive for Reform, Advance as a Pioneer-- Sidelights of the Academic Symposium 'Retrospect and Prospect on Socialist Economic Theories in China'"]

[Text] Editor's note: At the time of the 30th anniversary of the founding of the journal "JINGJI YANJIU," a comprehensive academic economic magazine for our country's economics circles, the Economics Institute of the Academy of Social Sciences of China and the editorial department of "JINGJI YANJIU" have recently held in Beijing an academic symposium called "Retrospect and Prospect on Socialist Economic Theories in China." This column publishes a sidelight report on that symposium and is to publish in two successive issues briefings on the discussion of various special topics by the editorial department of "JINGJI YANJIU." We hope that this will promote the deepening and widening of the development of the research into our country's socialist economic theories. [end editor's note]

At the academic symposium "Retrospect and Prospect on Socialist Economic Theories in China" which has just concluded, the old, middle-aged, and young economic theoretical workers from the whole country gathered together in a hall, freely expressed their different views, jointly reviewed the process of the development of socialist economic theories in the past, and jointly looked forward to the future development of socialist economic theory. Undoubtedly, this is of great significance in promoting the deepening and widening of the development of the research into socialist economic theory.

Since the founding of the PRC, our country's research into socialist economic theory has followed a course filled with twists and turns, in which we have made progress, suffered setbacks, gained experiences, and learned lessons. However, generally speaking, in our socialist construction, the vast number of economic theoretical workers have made important contributions. In particular, since the 3d Plenary Session of the 11th CPC Central Committee put forth the principle of emancipating our minds and seeking truth from facts and switched the focus of the work of the whole party and the whole country onto our socialist construction, our economic theoretical researchwork has been closely combined with the practice of our socialist modernization and made unprecedentedly great progress. The participants to the symposium reviewed the achievements

in our country's socialist economic theoretical research work and held that these achievements were mainly in the following fields:

--We have carried out wide research into and repeatedly discussed a series of major socialist economic theoretical problems and have broken with traditional concepts on a series of fundamental problems such as the problems related to the structure of socialist ownership, the characteristics of the realization of socialist distribution according to labor, the relationship between the socialist planned economy and the commodity economy and law of value, the relationship between the enterprises owned by the whole people and the state, the economic functions of the socialist state, and the socialist economic pattern, in particular its policy decisionmaking system and mechanisms for its regulation and operation. The summing up of the theory that the socialist economy is a planned commodity economy, in particular, is a major breakthrough in socialist political economy, a breakthrough that has a significance that affects the whole situation. This theory constitutes a theoretical pillar for the reform of our rigid pattern which is unsuited to the demands of the development of our social productive forces and for the establishment of a socialist economic structure with Chinese characteristics that is filled with vigor and vitality.

--In addition to the original political economy and departmental economics (including industry, agriculture, commerce, transport, construction, and so on), we have also established many new branches and subbranches of economics such as quantitative economics, economics of technology, urban economics, population economics, comparative economics, economics of development, and economics of productive forces, and thus greatly strengthened the trend of specialization and synthesization of our socialist economic theoretical research.

--In addition to traditional methods of economic research, we have also introduced new methods of analysis in the fields of economic research and started to probe into the application of systems theory, information theory, and cybernetics, so that the research achievements in our economics science are no longer confined to theoretical and qualitative analysis and gradually develop toward the direction of model analysis and quantitative analysis.

--Besides, with the help and guidance of the old generation of economics, a fairly large number of middle-aged economists are playing an increasingly great backbone role and young economic theoretical workers have continued to emerge in large numbers and are reaching maturity.

Through summing up the historical experience in the economic research since the founding of the PRC, the participants of the meeting deeply felt that through years of exploration, research, and practice, we have already become increasingly clear about the basic outline and the essentials of socialism with Chinese characteristics. However, we cannot say that we already fully understand the objective laws that govern our country's socialist modernization. In view of the rich contents of our socialist modernization, our economic theoretical research is clearly still too backward and has not yet summed up and turned into theory all the abundant experience we have gained in practice. In the new historical period, we should push forward the research into socialist economic theory in order to meet the demands of the economic construction centered on the socialist modernization. We should make arduous efforts at least in the following fields:

1. We should adhere to the principle of integrating theory with practice. Closely combining economic theory and economic practice is a path that the development of economic science must follow. Each new historical era should have its own theoretical creation. Marxist economic science must also continue to blaze new trails to be adapted to the development of practice. During the new historical period, in order to score achievements, our economic theoretical workers must persist in proceeding from reality, continuously be informed of and discover new developments and problems in the practice, sort out and sum up, through theoretical thinking, large amounts of dispersed perceptual knowledge, raise it to the level of relatively systematic and orderly rational knowledge, use this rational knowledge to guide the practice of socialist modernization, and in light of the development of the practice, throw away the unscientific and even utopian understanding of socialism and enrich and develop socialist economic theory.

2. We should implement the academic principle of letting a hundred schools of thoughts contend. Generally speaking, as a brand new social mode, the socialist economic system is still at the experimental stage. Therefore, it is inevitable that socialist political economy and other branches of economics, which are the theoretical forms of the socialist economic system, should be immature. We should carry out our research and exploration on the basis of integrating theory with practice and we should advocate both academic freedom and scientific spirit and combine the two organically. Free and sincere discussion is a necessary condition for persisting in proceeding from reality in probing into the theoretical and practical problems of the socialist economy; while serious theoretical research in the manner of seeking truth from facts is precisely the aim of academic freedom. However, both those who criticize and those who are criticized should treat other people as their equals, convince other people with their reasons and adopt a responsible attitude. As long as we seek truth from facts, think independently, pursue new knowledge, and are brave in blazing new trails in our academic discussion, we will approach the truth step by step.

3. We should pay attention to renewing our economic knowledge. Many theoretical and practical problems in our socialist modernization, such as the exploitation and utilization of land, ecological balance, environment protection, the quantification of economic problems, the economic logic of engineering and technological projects, and the consequences of scientific and technological progress, can by no means be solved by people in one or two branches of learning and should be solved through the concerted efforts of economic theoretical workers and natural science workers. This is particularly true for the series of new topics that the rising new global technological revolution has put forth for the research of socialist political economy and other branches of economics. This requires our theoretical workers to widen their field of vision and take the situation and consequences of the development of natural science into the scope of their research. At the same time, our economic theoretical workers can be enlightened by the research methods of natural science, apply it to their research work, and thus raise the research of socialist economic theory to a new level.

The year 1985 is the first year in which we implement the decision of the 3d Plenary Session of the 12th CPC Central Committee. The all-round carrying out of the reform of the whole economic structure with the focus on urban reform

will raise sharp problems relating to the renewal of our concepts for our economic theoretical workers. All the participants are firmly confident that as long as the economic theoretical circles throughout the country are keen to reform and open up the path for forging ahead, a situation of very prosperous research in socialist economic theory is just around the corner.

CSO: 4006/736

NATIONAL POLICY AND ISSUES

BRIEFS

COMMODITY ECONOMIC THEORY MEETING--The Zhuo Tong seminar on the theory of commodity economy opened in the South China Normal University this morning. Over 100 economic experts, scholars, and representatives from more than 10 provinces and municipalities including Beijing, Shanghai, Jiangsu, and Guangdong are attending the seminar. Zhuo Tong is a research fellow of the Guangdong Provincial Social Science Institute and a well-known economist in China. In connection with the actual conditions in China, he advocated that in socialist construction it is necessary to pursue commodity economy and use the law of value to harmonize the various economic relationships. Practice has proven that the viewpoint and ideas of Comrade Zhuo Tong on the theory of socialist commodity economy are in accord with the spirit of the central decision on reform of the urban economic structure. At present, Zhuo Tong, who is almost 70, is continuing his research work, and has achieved abundant fruits from it. He was recently assessed a provincial special grade model worker. The seminar has received 45 theses. The meeting will end on 25 June. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 22 Jun 85 HK]

CSO: 4006/736

PROVINCIAL AFFAIRS

HEILONGJIANG'S LIU ZHONGLI ON ECONOMIC, SOCIAL DEVELOPMENT

SK111500 Harbin HEILONGJIANG RIBAO in Chinese 26 May 85 pp 2, 3

[Apparent text of the report on the 1985 Heilongjiang Provincial Economic and Social Development Draft Plan, given by Liu Zhongli, chairman of the Provincial Planned Economic Commission, at the 3d Session of the Sixth Provincial People's Congress on 15 May 1985]

[Text] Comrades:

Entrusted by the provincial People's Government, I now submit a report on the implementation of the 1985 economic and social development plan and the arrangements for the 1985 plan for your examination and discussion.

1. The Implementation of the 1984 Plan.

In 1984, our provincial economic work was carried out under the guidance of the principle of "invigorating the domestic economy and opening to the outside world," and along with the reform of the economic structure. After the promulgation of the "decision of the CPC Central Committee on reforming the economic structure," in particular, the reform enthusiasm of the people in the province was greatly boosted. The reform of the economic structure with a focus on reforming the urban economy entered a new stage. Reform stimulated the development of production and promoted economic prosperity. The total output value of society during the year reached 52.5 billion yuan, an increase of 8.9 percent over last year. Of this, the total output value of agriculture and industry reached 43.77 billion yuan, exceeding the annual plan by 4.4 percent, and showing an increase of 9.8 percent over the previous year, attaining the target set by the Sixth 5-Year Plan 1 year ahead of schedule. The national income came to 26.48 billion yuan, an increase of 8.5 percent over the previous year. The average per-capita income reached 798 yuan, an increase of 7.7 percent over the previous year. Great achievements were made in various undertakings.

1) We reaped a bumper agricultural harvest. All main targets hit all-time record. The annual total agricultural output value reached 12.15 billion yuan, exceeding the annual plan by 4.3 percent and showing an increase of 10.3 percent over the previous year. The total grain output came to 35.15 billion jin, an increase of 13.5 percent over the best year in 1983, attaining

the target set by the Sixth 5-Year Plan 1 year ahead of schedule. The production of cash crops was better than the last few years. Forestry, animal husbandry, sideline businesses, and fisheries and other undertakings progressed fairly. The output of flax increased 42 percent and that of flue-cured tobacco, 36.5 percent over the previous year. The afforestation areas reached 7.927 million mu, which was 58.5 percent greater than the annual plan, an increase of 23 percent over the previous year. The total output of increased 1.9 percent over the previous year, and that of fresh eggs, 2.2 percent. The total number of dairy cattle reached 205,000 an increase of 17.8 percent over the previous year. The total output of aquatic products increased 29.6 percent over the previous year.

The number of farm machines continued to grow. Compared to last year, the total power capacity of farm machines increased 4.7 percent and the total number of large and medium-sized tractors increased 4.1 percent. The number of small and hand-guided tractors increased 49.4 percent. The amount of chemical fertilizer applied during the year increased 15.6 percent and the power consumption in the rural areas increased 4 percent. The farming area plowed by machines expanded by 3 million mu as compared with the previous year.

By the end of last year, about 98.7 percent of the rural production teams had implemented the family-based output related contracting responsibility system. The number of specialized households engaged in various commodity production increased 1.3 times over the previous year. The rate of agricultural products sold as commodities increased from 40.9 percent in the previous year to 42.5 percent. The number of peasant households whose sales of commodity grain were over 10,000 jin and whose income was over 10,000 yuan increased by many times over the previous year. An excellent situation emerged in that a diversified economy was developing daily, township- and town-run enterprises were springing up vigorously; commodity production was developing rapidly; and agriculture, forestry, animal husbandry, sideline occupation, and fishery were flourishing.

2) Industrial production continued to rise and economic results improved remarkably. The total industrial output value for the whole year was 31.62 billion yuan, registering an increase of 9.6 percent over the previous year, overfulfilling the target set in the "Sixth 5-Year Plan" by 0.7 percent 1 year ahead of schedule, and registering a peak growth rate since the 3d Plenum of the 11th CPC Central Committee. Of this, the light industry output value increased by 12 percent and that of heavy industry increased by 8.4 percent. The plans for the production of principle products were well fulfilled. Of 82 products covered in the 1984 plans, the output plans of 50 were fulfilled or overfulfilled, showing an increase of 63 percent over the previous year and accounting for 76.8 percent of the total. As of the end of last year, of 55 principal industrial products covered in the "Sixth 5-Year Plan," the output targets of 30 were refulfilled by 1 year, including raw coal, crude oil, steel, pig iron, coke, sulphuric acid, synthetic ammonia, chemical fertilizer, tires, power-generating equipment, machine tools, tractors, vehicles, television sets, washing machines, and chemicals. The quality of these products improved remarkably and the variety of products increased by a large margin. At the 1984 national meeting for comparing and appraising the quality of different products, our province's industrial products won four gold medals and 27 silver

medals, 80 products won quality prizes issued by the ministry, and 442 won quality prizes issued by the province. The rate of quality products increased from 7.45 percent in 1983 to 11.58 percent. A total of 2,181 new products were produced in 1984. Consumption of industrial production fell and economic results increased. Of 82 fuel and raw material consumption targets, 62 were reduced from or sustained the 1983 figures, accounting for 72.9 percent of the total. Production and economic results increased at the same pace. The total output value of locally budgeted industrial enterprises increased by 15 percent, income from sales increased by 14.3 percent, and profits handed over to higher levels increased 34 percent. The turnover period for working funds was shortened by 185 days as compared with the previous year.

Under the situation of extremely prominent contradictions existing between capacity and demands, the province adopted various initiative measures for tapping the potentials of railways, highway and water transportation, and postal and telecommunications services; and plans for railways, highway and water transportation, and postal and telecommunications service were overfulfilled. In 1984, the volume of freight transportation by different means of transport was 182.98 million tons, overfulfilling the annual plan by 3.8 percent and showing an increase of 2.2 percent over the previous year. Of this, the volume of railway freight transportation increased by 4.4 percent over the previous year, that of waterway freight transportation increased by 8.8 percent over the previous year, and that of air freight transportation increased by 14 percent over the previous year. The volume of passenger transportation by different means of transport was 203.75 million person-kilometers, overfulfilling the annual plan by 3.4 percent and showing an increase of 12 percent over the previous year. The total business volume of posts and telecommunications increased by 7.1 percent over the previous year. The service quality of transport and postal and telecommunications departments was remarkably improved.

3) Investments in fixed assets were well realized, and the construction of key projects and technological transportation were further accelerated. In 1984, total investment in fixed assets for state-owned units came to 7.03 billion yuan, an increase of 10.7 percent over the previous year. Of this, investment in capital construction was 3.83 billion yuan, an increase of 103 percent over the previous year. Of 2,258 capital construction projects covered by construction plans, 1,436 were completely constructed and put into operation, accounting for 63.6 percent over the total. The rate of the construction of 43 key projects was higher than the province's average construction rate by 1.2 percent. A total of 5 large and medium-sized projects covered by the state plan including the No 2 Fulaerji Power Plant, the Heilongjiang Dairy Products Plant, the Mudanjiang Cement Plant, the Yichun Power Plant, and the Jiamusi Paper Mill, and 10 single items attached to large and medium-sized projects were completed and put into operation on schedule. The Anda Woollen Mill was also completed on schedule as demanded by the provincial plan.

A total of 1.196 billion yuan was invested in projects involving renewal of equipment and other technical transformation measures of enterprises, excluding those enterprises directly under the central authorities. Of this, some 419 million yuan was invested in increasing the production of energy,



conserving raw materials and energy consumption, increasing product designs and variety, and improving the quality of products, a 30.8-percent increase over the previous year, and with the proportion in the total investment rising from 24.3 percent in the past year to 35 percent. Among the 1,533 renewal and transformation projects covered by the construction plan, 974 or 63.5 percent, were completed and put into operation.

The acceleration of construction of capital projects speeded up the tempo of renewal and transformation projects. The annual added production capacity from these projects over the past year consisted mainly of facilities for producing 1.82 million tons of coal and 4.4 million tons of crude oil, felling and transporting 230,000 cubic meters of timber, generating 361,000 kw of power and producing 1.152 million tons of cement, 1.1 million standard boxes of plate glass, and 42,000 tons of machine-made paper. Also added were 17,000 woollen spindles. A total of 95.4 kilometers of new double-track railway lines were put into service. This played an active role in relieving the pressure on energy resources and transport and in satisfying the people's needs in daily life.

4) The market was brisk, and foreign trade increased substantially. Thanks to the sustained development of industrial and agricultural production and the further reform of the circulation system, the supply of commodities increased and the market sales became brisker. The province's 1984 retail sales reached 14.49 billion yuan, a 16.8-percent increase over the previous year. Retail sales of major commodities increased markedly over the previous year. In particular, substantial increases were made in sales of woollen piece goods, wrist watches, television sets, cassette recorders, electric fans, washing machines, refrigerators, and other expensive and durable consumer goods. Of this, retail sales of woollen piece goods increased by 30.2 percent; those of silks and satins, 37.4 percent; and those of wrist watches, 20.2 percent.

In 1984, the province overfulfilled the target for procurement of commodities for export and foreign trade and the target for import and export. The 1984 total volume of commodities procured for foreign trade and export was 2.75 billion yuan, surpassing the annual target by 15.5 percent, and a 22.5-percent increase over the previous year. The total volume of directly imported and exported commodities was \$385 million, overfulfilling the annual target by 15.2 percent, an 29.9-percent increase over the previous year. Of this, the total volume of exported commodities increased by 24 percent, and that of imported commodities, 98.1 percent. A breakthrough was made in border trade with the Soviet Union. The annual total value of import and export via Sino-Soviet border areas was 27.4 million Swiss francs, a 72-percent increase over the past year. New progress was made in economic and technical cooperations with foreign countries. In 1984, the province invited and received 1,145 foreign traders from 19 countries and regions to consult on related matters of economic and technical cooperation, thus strengthening friendly contacts with various foreign countries and regions. In 1984, the province established trade relations with more than 100 foreign countries and regions. Meanwhile, in line with the principles of taking advantage of favorable conditions and avoiding weaknesses, and mutual benefit and common development, the province established stable economic and technical cooperative relations with 20 provinces, cities,

and districts and with more than 130 places in our country; signed with them more than 1,500 agreements on economic, technical, and material cooperation; and imported more than 80 million yuan of capital from these places. All these reflected a new situation in which our province rapidly expanded the economic and technical cooperations and exchanges with other places.

5) The implementation of the financial budget was good and banking undertakings were further strengthened. In 1984, the province's total financial revenue (including the fixed-quota subsidies and appropriations for special projects from the central authorities) reached 4.375 billion yuan, of which 2.191 billion yuan came from the financial revenue of local organizations, an increase of 24.9 percent over the previous year. The total local financial expenditures reached 3.612 billion yuan, an increase of 17.6 percent over the previous year. The local financial revenue and expenditures were balanced with a small surplus.

The total amount of bank loans at the end of 1984 increased 26.1 percent over that of the beginning of the year. The total amount of the various kinds of savings deposits showed an increase of 23.8 percent over the beginning of the year. The rational increase in the amount of loans effectively promoted the development of production.

6) New progress was made in the development of scientific, educational, cultural, and public health undertakings. The province succeeded in 400 scientific research findings in 1984, of which 7 approached the international level, 93 attained the national level, 193 filled a blank for the province, and 7 were major scientific and technological inventions. Many scientific research findings were applied to production and achieved remarkable economic results. The total number of specialized technical personnel of various branches of learning reached 524,000, an increase of 5.4 percent over the previous year. The province's enrollment of institutions of higher learning reached 19,000 students, an increase of 26.2 percent over last year, exceeding the target set by the Sixth 5-Year Plan. The rate of two-shift primary and middle schools fell from 4.9 percent to 3.3 percent. New progress was made in adult education. The cultural, press, publication, broadcasting, and television departments made positive contributions to promoting the building of the spiritual civilization. We continued to strengthen the public health undertakings and achieved gratifying results in the sports undertakings.

7) We continued to improve the livelihood of the people. In 1984, cities and towns in the province provided jobs for 266,700 persons. The total number of workers in the province at the end of 1984 reached 7.42 million, an increase of 179,000 persons. There were 223,500 self-employed workers in cities and towns, an increase of 76,500 persons. The total amount of wages of workers in the province reached 7.036 billion yuan, an increase of 13.8 percent over the previous year. The average per-capita wages of workers rose from 869 yuan in the previous year to 969 yuan, an increase of 11.5 percent. If the price rises are factored, the increase was 6.9 percent. According to a sample survey, the average annual per-capita income of the worker families for living expenses reached 549.8 yuan, an increase of 12.8 percent. The average per-capita expenditures for living expenses reached 516.54 yuan, an increase of 9.4 percent. If the price rises are factored, the increase was 4.7 percent.

The average per-capita net income to peasant families reached 416 yuan, an increase of 46 yuan over the previous year. The total savings deposits of residents in the urban and rural areas across the province reached 5.34 billion yuan, an increase of 33.4 percent over that of the end of last year. We did a solid job in family planning and further controlled the growth of population. The province's natural population growth rate dropped from 12 per thousand in the previous year to 9.7 per thousand.

In 1984, the state and enterprises invested 794 million yuan in building houses for workers and staff members. Some 3.81 million square meters of housing were completed and about 100,000 families moved in.

The implementation of the plan mentioned above showed that our province's economic situation was very good. We should treasure and develop such a situation. Meanwhile, we should also note that there are still some problems which we must pay attention to on our road of advance. First, power supply and communications, particularly the supply of electricity and railways transportation are still very strained. Second, the amount of currency in circulation has increased and the increase in consumption funds has exceeded the increase in production. In particular, a problem seriously existed in that some units wrote checks themselves to illegally draw cash. Arbitrarily raised the price of goods, and arbitrarily issued bonuses and materials. Third, the economic results were not satisfactory. Although our province made up deficits by a big margin last year, a considerable majority of industrial, commercial, grain, and agricultural and livestock enterprises suffered losses. Total deficits were quite high.

The above-mentioned problems not only affected the sound development of the economy, but also obstructed sound progress in reform of the economic structure. We must adopt effective measures for solving these problems in the new year in order to consolidate and develop the current excellent situation.

## 2. The tasks and principal targets set forth at 1985 plan.

The year 1985 is the last one for implementing the Sixth 5-Year Plan as well as the first one for comprehensively implementing "The CPC Central Committee's Decision on the Reform of the Economic Structure." We must make efforts to achieve the work in all fields and score greater achievements.

The state has asked that three great matters be achieved simultaneously in the overall course of 1985's economic work. First, we should start with price reform; second, we should carry out reform of the wage system in a step-by-step manner; and third, we should maintain a certain scale of key construction projects and technological transformation projects in order to comprehensively fulfill the "Sixth 5-Year Plan" and to make essential preparations for the "Seventh 5-Year Plan." In line with these requirements, our province's main tasks for the 1985 national economic and social development plan are: We should comprehensively implement the guidelines of the 3d Plenum of the 12th CPC Central Committee; enthusiastically and steadily conduct the reform of the economic structure in line with a strategic economic development principle of "conducting system reform and technological transformation and opening to other

provinces and the outside world" set forth by the provincial CPC Committee; continue to carry out the principle of enlivening the domestic economy and opening to the outside world, vigorously develop the commodity economy; ensure a steady, sustained, and coordinated development of the national economy on the premise of improving the economic results; comprehensively fulfill and overfulfill the tasks set forth at the "Sixth 5-Year Plan" to further improve the livelihood of urban and rural people; and prepare good conditions for economic development during the "Seventh 5-Year Plan."

The specific tasks and principal targets set forth at the 1985 draft plan are as follows:

1) We should maintain a sustained and steady increase in production on the basis of vigorously improving the economic results and increasing the national income.

The total social output value in 1985 is planned to increase 6.8 percent over the previous year and the total industrial and agricultural output value is planned to increase 6.7 percent. Of this, the total agricultural output value is planned to increase 6.7 percent. Of this, the total agricultural output value is planned to increase 6 percent and the total industrial output value is planned to increase 7 percent. The increase in the national income is planned to be 6.3 percent. The plan was arranged in accordance with the principle of registering increases in production and economic results at the same pace. The plan conforms to our province's actual conditions and we should ensure its realization.

We should shift the stress of rural economic work to the readjustment of production structure. We must firmly attend to or never lower our guard on grain production. Simultaneously, we should shift our work stress from only concentrating on grain production to attending to cropping, fish farming, the mining industry, the processing industry, small-sized energy industry, the construction trade, transportation service, and the commerce and service trades in order to make the rural economy move towards specialization, large-scale commodity production, and modernization. In developing the cropping industry, attention should be paid to rationalizing and arranging well the structure and distribution of major crops in line with the production and marketing situation. Efforts should be made to continually expand the acreage planted with paddy rice, wheat, and soybean, and to maintain a fixed amount of corn-growing areas. The development of cash crops should conform with the demand of the processing industry, and the feed-growing acreage should be increased gradually. In growing grain and cash crops, we should apply scientific measures, vigorously improve the variety; and depend mainly on the increase of per-unit output to increase the gross output. In developing forestry production, we should strive to raise the survival and preservation rate of trees, and continue to build the north, northeast, and northwest China shelterbelt, to popularize the construction of fast-growing and high-yielding forests, and to build the commodity timber bases. By regarding the development of animal husbandry as an important link for readjusting the rural industrial structure, we should strive to accelerate the development of animal husbandry, gradually raise the proportion of animal husbandry in agriculture as a whole, and constantly encourage peasants to change

grain production to production of meat, eggs, poultry and milk. In particular, we should strive to increase of production of sheep. Fishery development should be accelerated. We should also strive to do well in arranging the vegetable production in cities, and industrial, mining, and forest zones. We should develop agriculture, forestry, animal husbandry, sideline production, and fishery in line with the market needs, and strive to expand exports. Town and township enterprises occupy an important position in promoting the development of the rural economy. Therefore, we must adopt measures to develop various kinds of town and township enterprises, and strive to expand their operation and processing scale in order to gradually rationalize the rural industrial structure and further increase the economic efficiency of agriculture.

Industrial production is faced with such new tasks by readjusting the product mix, renewing technologies, adapting to the changes in the consumption structure, increasing economic efficiency, and strengthening the capacity of self-transformation and development. In 1985, efforts should be concentrated on the following four aspects: First, we should continue to improve the quality of products, increase the variety and designs of products, adapt to the constant changes in the market, and improve competitive capacity, proceeding from the development of commodity products. Second, we should continue to conserve energy resources and raw materials and lower material consumption. Third, we should strive to raise productivity. Fourth, we should strive to halt deficits and increase profits. Light industrial enterprises should speed up the tempo of technical transformation, raise the technical level, strengthen the capacity to meet an emergency, and strive to produce more "three quality" and "four new" products. Light industrial enterprises should vigorously increase the production of color television sets, cassette recorders, washing machines, refrigerators, woolen piece goods, woolen blankets, knitting wool, carpets, man-made furs, beer, matches, soaps, plastic films for agricultural use, wrapping paper for market use, nails, iron wire, garments, and other expensive and durable consumer goods which are and will be readily marketable, and should continually control the production of yarn and cotton cloth.

In developing heavy industrial production, we should focus on the energy production and transport facilities. On the one hand, we should accelerate the construction of the on-going power plants, mines, the double-tracking of the Bin-Sui and the Sin-Zhou Railways, and the management station of the Harbin Railway Station. On the other hand, we should tap potential, increase efficiency, and ensure fulfillment or overfulfillment of the production plans. To further relieve the pressure on energy resources and, in particular, on power supply, this year, the provincial people's government has decided to encourage enterprises to join their capital to run power plants, to accelerate the construction of the No 3 Harbin Power Plant, to incorporate those enterprise-run power stations in a network to generate electricity, and to intensify the rebuilding of the key section of the Ha-yu power transmission line. To relieve the pressure on railway transport, the province plans to increase the investment by the pertinent state department in building the double-tracking of the Sui-Bin Railway, to prepare for the construction of the double-tracking of the Mudanjiang and Linkou Railway, and to rebuild the Nancha Station of the Sui-Jia Railway. Construction of the locally-run Dongning Railway will also begin this year. Meanwhile, we should consciously readjust the transport structure and organizations, further promote the diversion and

rational distribution of the passenger and freight transport through railway, highway, water, and air services, and try every possible means to lighten the burden on railway transport.

2) We should strictly follow the state plan to curtail the scale of investment in fixed assets and to earnestly implement the principle focusing on conducting technical renovations and carrying out reconstruction and expansion.

In line with the total scale assigned by the state to the province with regard to investment in fixed assets, the provinces has arranged capital construction investment in the major items of energy resources, transportation, and raw materials for the 1985 draft plan in order to meet the urgent needs of production development. The proportion of capital construction investment in education in the provincial financial capacity has scored a 5-percent increase over the 1984 figure, and in sciences, a 5.1-percent increase over the 1984 figure. Meanwhile, to accelerate the pace of developing the economy, our province has also arranged the investment in developing the items to support and assist the 300,000-metric ton ethylene state key project in Daqing City. In line with the financial capacity, the province has also made proper arrangements for construction in other fields.

In making arrangements for investment in capital construction in the 1985 draft plan, the province has earnestly implemented the principle and demand set forth by the state with regards to upgrading marked results in investment, further orienting the building guideline on the program of conducting reforms and carrying out reconstruction and expansion, and refraining from setting up new items to overcome existing difficulties of enterprises when it is possible to deal with such difficulties by conducting technical renovations and carrying out reconstruction and expansion. Of the large- and medium-sized investments in 1985, 56.3 percent are used for conducting technical renovations and carrying out expansion among the existing enterprises, and 43.7 percent for building new projects.

The arrangement of investment in technical renovations in the 1985 draft plan is aimed chiefly at renewing production equipment, improving technology, upgrading product quality, and carrying out the replacement and renewal of products.

The task of accelerating the pace of developing or building border areas has important significance in making broader areas prosperous, enlivening the economy, consolidating national defense, enhancing unity among various nationalities, and realizing the program of building socialist modernization. By bearing in mind the possibilities provided by national and provincial financial and material resources, the province has made special arrangements for investment in building the border areas throughout the province. The construction investment in various items in these areas has scored a 70-percent increase over the 1984 figure and is used chiefly for the construction and development of farmland, water conservancy work, communications, energy resources, culture and education, public health, and towns, as well as for urgent needs related to foreign affairs. We should do things strictly according to the procedure of capital construction, and should do a good job in managing and using various construction funds.

In 1985, we should conduct strict control over the scale of investment in both capital construction and technical renovations, give priority to key projects, curtail the period of construction, and upgrade investment results. Efforts should be made to further enforce the system of public bidding and the responsibility system by signing contracts on construction work and investment in order to upgrade work quality and accelerate construction speed.

3) We should make markets in both urban and rural areas more prosperous and expand exchanges and cooperation in the fields of the economy and technology withoutside areas.

The arrangement for the total retail sales of social commodities in the 1985 draft plan has scored a 15.9-percent increase over the 1984 figure, which may lead to a rough balance between the total volume of commodity supply and social purchasing power. The problem is that there still is a contradiction between commodity supply and demand and that, in particular, the supply of medium- and high-class commodities cannot meet the demand of markets. To promote production development and meet the need of improving the people's livelihood, we should fulfill the following tasks: First, along with the changes in the consumption structure among the people, efforts should be made to actively readjust the structure of light and textile industrial products, to vigorously increase the output of the products urgently needed by markets, and to vigorously develop foodstuff industries. Second, efforts should be made to actively readjust the structure of light and textile industrial products, to vigorously increase the output of the products urgently needed by markets, and to vigorously develop foodstuff industries. Second, efforts should be made to actively collect foreign exchange to properly import raw materials for light and textile industries and some commodities in short supply in order to increase market supply. Third, efforts should be made to further readjust the purchase system of farm and sideline products and the transport and sale policies in order to unclog the channels by which farm and sideline products enter urban areas. Fourth, efforts should be made to bring into full play the role of trade centers in order to gradually set up commodity circulation networks with the central function of trade centers. Fifth, as far as the state policies permit, efforts should be made to expand purchases and sales at negotiated prices by flexibly making use of price differences in order to readjust the relationship between market supply and demand. Sixth, in line with the principle of conducting profitable production and making things convenient for the people's livelihood, efforts should be made to actively develop tertiary industries and to upgrade the quality of services. Seventh, a good job should be done in carrying out market investigation and calculation, knowing market changes and trends well, and in doing well in organizing commodity supply on the basis of maintaining a basic balance between the gross volume of supply and demand in order to gradually relieve the contradiction cropping up in the structure of both commodity supply and demand and to further enliven the markets.

We should adhere to the principle of mobilizing the enthusiasm of all quarters and implementing a unified plan while carrying out foreign trade in 1985. We should further implement the open-door policy and strengthen economic and technological exchange and cooperation. We should make better use of foreign capital through various forms to import practical and advanced technology

and key equipment in order to achieve a rapid development in the provincial economy.

To ensure the needs of production and construction, we have made an overall arrangement for the distribution of the means of production in the 1985 draft plan. The general principle is to guarantee supplies for key projects while giving consideration to general projects. The allocation of materials subjected to planned distribution should be the same as the base figure of distribution for 1984. Materials covered by the provincial unified plan should be supplied to satisfy the need to produce products subjected to the state and provincial mandatory plans; to build capital construction projects whose investment is covered by the state budget and arranged by the province, whose loans are included in the state and provincial credit plans, and whose funds come from foreign capital; to carry out key projects on technological transformation and importation which the state and the province have arranged with domestic or foreign capital; to develop agriculture; to produce and maintain farm machines; to develop light industrial markets; and to conduct projects to update and upgrade equipment. The supply of materials for some production tasks arranged by the various prefectures, cities, counties, and provincial-level departments, and for capital construction projects whose funds are raised by the local authorities, or by bank loans or whose funds come from foreign capital which the local authorities must repay through self-reliance should be organized by the various localities and departments. We should ensure the fulfillment of the state-assigned allocation plan. If we fail to fulfill the state and the provincial mandatory delivery plans due to subjective reasons, we should deduct part of the unified distribution materials which have already been distributed, from the distribution quota for the next year.

The supply of materials subjected to the state unified plan is fairly strained in 1985. All localities, departments, and units should realistically strengthen management over materials, strive to expand the sources of materials; maintain cooperation in the supply of materials among localities, departments, and enterprises; and continue to conserve materials and to replace materials subjected to unified distribution with other materials.

4) We should strengthen intellectual development and further develop educational, scientific, technological, cultural, public health, and sports undertakings.

The best way to develop educational undertakings is to strengthen intellectual development and the training of competent personnel. While developing educational undertakings, we should adhere to the principle of "tailoring work to the needs of modernization, the world, and the future." Higher educational institutions should speed up reform and the rate of construction. While improving teaching quality, we should vigorously improve our teaching ability, tap the potential of existing colleges and universities, and strive to increase the student enrollment. We should do a good job in conducting higher education for adults through various forms such as setting up radio, television, correspondence, and part-time workers universities. Vocational technical education should be steadily developed. We should continue to reform the structure of secondary education, and actively develop various kinds of



secondary vocational and technical schools. Primary education should also be popularized and developed. We should also vigorously develop preschool education through various forms. We have arranged special funds for solving the problem of the two-shift teaching system in urban primary and middle schools. Except for some cities, the problems of the two-shift system in primary schools of eight cities will be basically solved this year.

In scientific and technological development, we should concentrate efforts on cooperation in 1985, organize efforts to engage in joint research projects, and strive to fulfill the items set in the Sixth 5-Year Plan. The main task is to grasp major scientific research projects centering on energy, communications, and trail manufacturing of raw materials and products which will yield remarkable economic results, and to grasp key technical transformation and joint research projects in industrial enterprises. In addition, we should strengthen grain conversion work in line with the province's characteristics, the development of techniques to keep food fresh, breeding, cultivation improvement in the strains of seeds and livestock and poultry, the comprehensive utilization of animal feed and timber, the production of software for microcomputers and calculators, and research into scientific projects such as the long-distance information propagation project. [sentence as published]

We should make new progress in culture, television, health, and sports as well as other undertakings, and continue to do a good job in family planning.

3. We should work hard to comprehensively fulfill the 1985 plans and the Sixth 5-Year Plan.

The first quarter of 1985 has already passed. In the first quarter, the province's economy developed stably and the spring plowing was carried out rapidly. Sowing plan was fulfilled basically, and rice, wheat, soybean and cash crops growing areas increased over the past year. There were ample supplies of materials and goods for spring plowing and farming, and the supply of fine seeds met the needs throughout the province. The demand for loans for spring plowing and farming was basically satisfied. Wheat sowing was completed, and more than 60 percent of all fields were sown. In the first quarter of this year, the total industrial value reached 8.143 billion yuan, a 10.5-percent increase over the corresponding 1984 period. A sustained and stable increase was made in industrial economic results. The industrial output value created by state enterprises covered by the provincial budget increased by 30.5 percent over the corresponding period in 1984, income from sales of products increased by 32.3 percent, the total volume of taxes delivered increased by 31.4 percent, and the profits delivered to the state increased by 45.8 percent. Commodity circulation was accelerated, and new progress was made in other fields. A remarkable turn for the better was effected in checking the excessive issuance of loans, the sharp increase in expenditure, the increase in the volume of currency put into circulation, and the wanton price hikes at the market which were raised at the national meeting of provincial governors. Calculated according to comparable standards, financial revenue increased by 17.9 percent over the corresponding 1984 period, and expenditure was basically controlled. Savings deposits in banks increased by 4.3 percent over the corresponding 1984 period; and savings deposits in urban areas increased by 10.4 percent. The total volume of bank loans fell by 197 million yuan from the

corresponding 1984 period, but the volume of agricultural loans increased by 380 million yuan over the figure at the beginning of this year, thus basically ensuring the funds needed for agricultural loans increased by 380 million yuan over the figure at the beginning of this year, thus basically ensuring the funds needed for agricultural production. Cash management was also greatly strengthened. Income increased by 34.5 percent over the corresponding 1984 period, and some 300 million yuan of currency was withdrawn from circulation, a 160-percent increase. Market prices stabilized. In particular, the free management of hog production and the free market of pork stabilized the market price instead of causing price fluctuation.

The current excellent economic situation has laid a good foundation for fulfilling the annual plan. Over the next few months, we should pay attention to the following tasks by further unifying our thoughts and proceeding from the overall situation.

1) We should adhere to the principle of seeking truth from facts, and fulfill the plan for 1985 in a down-to-earth manner. The various targets in the draft 1985 plan were formulated according to a comprehensive analysis, and thus conform to long-term development. We should consciously organize production and construction in line with the targets set in the draft plan, and fulfill these targets in a down-to-earth manner. At present, the problem meriting our attention is that some localities one-sidedly seek high targets and vie with each other in accelerating the growth rate inspite the people's need; market supply; possible financial and material capacities; and the balance between revenue and expenditure, between credit receipts and payments, and between materials and foreign exchanges. This problem is just like that raised by Premier Zhao Ziyang in his report to the Third Session of the Sixth NPC. The continued development of this problem will adversely affect the national economy as a whole. Therefore, in implementing the plan for 1985 and organizing production and construction for various localities and departments, we must adhere to the principle of seeking truth from facts rather than one-sidedly boasting and exaggerating. We should not forget the lesson of history. At present, our province is incurring a relatively strained situation in funds, energy resources, and communications. If we one-sidedly seek a high speed of development, we will further intensify the strained phenomenon. Therefore, we should concentrate our efforts on readjusting industrial structure, promoting the set-up of specialized coordination, and pushing forward the task of making technical progress and upgrading the level of scientific management in order to realistically orient economic work as a whole on track with the central task of increasing economic returns. At present, localities and departments concerned, while formulating the Seventh 5-Year Plan for the national economy and social development, should also pay great attention to this task.

2) We should conduct reforms in the system of mapping out plans and strengthen management of the macroeconomy. Owing to the influence of "leftist" ideas, the planning system was full of shortcomings, such as excess centralism, excessively rigid management, excess proportion of mandatory plans, ignorance of regulating markets, and failure to adopt the measure of economic regulating. In addition, in conducting planning management, there is no link between investment and output and no establishment of strict responsibility systems.

This has resulted in a fairly general practice of "eating from the same big pot." In order to meet the need of enforcing the open-door policy for enlivening the domestic economy, beginning in 1985 the provincial People's Government will conduct more reforms among the existing planning systems in line with the central authorities' decision on conducting reforms among economic systems and the "temporary provisions" formulated by the State Planning Commission and approved and relayed by the State Council with regard to conducting reforms in the system of mapping out plans. We have totally enforced guidance planning in mapping out plans for agricultural production and curtailed the number of mandatory plans in industry from 82 in 1984 to 33 in 1985 and in commerce from 65 to 1984 to 18 in 1985. There are only 12-category commodities covered by the mandatory plans for export. We have totally relaxed the restriction on the business of minor commodities and enforced the practice of market regulating. We have also conducted appropriate reforms in other fields. Meanwhile, in line with the spirit of "simplifying administration and delegating significant power," we have properly delegated power to lower departments with regard to examining and approving plans for capital construction, technical renovations, and utilization of outside funds. These reforms have played a positive role in enlivening production among localities, departments, and enterprises and in promoting development of the province's economy. However, what we should note is that we have only made a start and not been perfect in many aspects. We must continuously push forward the task of conducting reforms in the planning system while carrying out reforms among prices and wages.

In conducting reforms in the planning system, it is imperative to do a good job in realistically conducting strict management over major plans in line with the demand set forth by the central authorities and in enforcing the open-door policy and delegating significant power to units that are responsible for mapping out minor plans. We should enforce mandatory planning and earnestly strengthen our management over important products which are closely related to the national economy and the people's livelihood and were distributed under the state plan; over capital construction projects whose state budget funds have been replaced with loans; over capital construction loans covered by state plans; over capital construction projects covered by state funds borrowed from foreign countries; and over major economic activities directly related to the situation as a whole.

It is imperative to strictly control the investment scale in fixed assets and, in line with the provisions of the State Council, to continuously enforce the system of having the administrative leaders of localities, departments, and units in charge of investment of fixed assets. Those who have failed in fulfilling the plan should be investigated and blamed.

On the premise of supporting production development, rationally utilizing funds to expand commodity circulation, and increasing efficiency in fund utilization, we should continuously curtail the scale of credits and have a drop in currency release. Financial departments at all levels must strictly implement the plans for credits and the volume of currency release. Meanwhile, we should actively withdraw currency from circulation.

We should strictly control the large increase in consumption funds which is the most important current problem to which we must pay great attention. We should publicize and educate the staff and workers to work conscientiously, to do a good job in production, to enhance labor productivity, and to improve livelihood along with the development of production. The financial departments, banks, auditing departments, and the responsible departments of enterprises should supervise and check the issuance of consumption funds of enterprises, organs, and organizations and resolutely stop the practice of taking the interests of the part into account while infringing upon those of the whole. Particular attention should be paid to resolutely stopping the acts of violating relevant state stipulations, discriminately raising the wages and grades of workers, and recklessly issuing bonuses, subsidies, and articles. We should stop changing production funds into consumption funds, and strictly control institutional purchases.

3) We should further vitalize enterprises and strive to raise the scientific management level. Enterprises are the main force for the development of social productive forces and economic technical progress. Invigorating enterprises, especially state-owned larger- and medium-sized enterprises, is vital to enlivening the economy, increasing financial revenue, and promoting the development of the whole national economy. At present, most of the state-owned small enterprises and collective enterprises have been vitalized and enjoy greater power. The present problem to which we must pay attention is the study of ways to invigorate large state-owned enterprises. We should attend to the issue of establishing a correct relationship between the state and the state-owned enterprises and between workers and enterprises in line with the spirit of the "Decision of the CPC Central Committee on reform of the economic structure." The 10 stipulations of the State Council on expanding the decision-making power of enterprises and the 10 policy measures of the provincial governor on invigorating enterprises, simplifying administration, and decentralizing power should be realistically implemented in enterprises. And by no means should we delay the implementation at each and every level. Enterprises should also institute and improve the various forms of the responsibility systems and realistically strengthen operation and management. We should fulfill the enterprise consolidation tasks from start to finish and raise the level of scientific management. This year, the state has decided to reform the price and wage systems. All localities, departments, and enterprises should strengthen ideological and political work along with the development of reform and the sustained growth of production; publicize and educate the workers to attend to reform and production with an attitude of being masters of the state; and ensure an overall implementation of the decision of the CPC Central Committee. All enterprises should tap their potential, give full play to their favorable conditions, strengthen operation and management, attend to production safety, turn themselves into real business units that can blaze new trails, and increase production, product quality, and economic results.

4) We should strengthen the utilization and management of foreign exchange. Our province lacks foreign exchange to satisfy the needs of all spheres. The best way to solve the shortages in foreign exchange and to increase its utilization is to create more foreign exchange. We should strengthen external economic cooperation, properly increase exportation of labor services, and do a

good job in "processing and assembling with materials and specifications provided by foreign firms, as well as in compensation trade," along with the expansion of foreign trade. In order to enable the various localities, departments, and enterprises to create more foreign exchange, we should use our province's own foreign exchange mainly to import necessary materials for developing agriculture and industry, and to import advanced technology, key equipment, and necessary scientific instruments. Priority should be given to the utilization of foreign exchange for such purposes. The utilization of foreign exchange for nonproductive projects should be strictly controlled. We should resolutely implement the stipulations of the State Council on the management of foreign exchange, and strictly forbid reselling foreign exchange at a profit. Banks should not discriminately circulate any illegal foreign exchange.

While using foreign exchange and foreign loans, we should strictly go through the procedures of examination and approval within the limits of our authority. In the course of formulating plans for the utilization of foreign exchange, we should also formulate plans for repayment.

5) We should actively raise construction funds. At present, a conspicuous problem in the province's economic construction is the lack of construction funds. We should find out ways from various aspects to relieve the shortage of construction funds. First, we should place the focus of our economic development on strengthening economic cooperations, contacts, integration, and coordination with various provinces, cities, and autonomous regions. Second, we should pay attention to vigorously importing foreign capital, expanding the utilization of foreign capital to strengthen economic and technical cooperations and exchanges with foreign countries and regions, building key enterprises and production bases for export commodities, expanding the scale of foreign trade, and increasing export of labor services. Third, we should draw together the scattered and idle funds of the urban and rural people, and actively and rationally use these funds to help develop the economic and construction projects which are urgently needed by the state. Collectives or individuals should be encouraged, supported, and organized to run construction and transport industries, commercial and service, and other kinds of trade. Fourth, we should pay attention to increasing economic results, strive to reduce and avoid making mistakes in formulating policy decisions for management, constantly improve the level of management, operation, and modern scientific management, strive to get more gains by making fewer investments, and make efforts to increase financial revenue and sources of funds.

6) We should enforce the economic discipline, and correct unhealthy trends. In the past, some new unhealthy trends emerged in society, and the violation of economic discipline was very serious. These new unhealthy trends have hindered the implementation of party principles and policies and the smooth development of the economic structure reform, and have adversely affected the construction of the socialist modernization drive. Now the CPC Central Committee and the State Council have already adopted various measures, and decided to use economic, administrative, and legal means to check such new unhealthy trends. We must resolutely follow it. Cadres should be educated to give consideration to the overall interests, to intensify their sense of organization and discipline, and to consciously correct unhealthy trends. All levels of financial, tax, auditing, bank, pricing, labor and personnel, and

and industrial and commercial administrative departments should actually strengthen management, inspection, and supervision over this work. Judicial departments should strengthen economic legislative and judicial work, must impose economic and administrative punishments on those who violate state policies and economic disciplines, and should sentence according to law those who violate state laws.

Fellow deputies! The current provincial economic situation is very good. So long as we resolutely implement the principles and policies defined by the CPC Central Committee and the State Council, closely depend on the efforts of the people of all nationalities across the province, and work heart and soul, we will certainly maintain a stable development of the provincial economy, and ensure a comprehensive fulfillment or overfulfillment of the plan for 1985 and the Sixth 5-Year Plan.

CSO: 4006/718

PROVINCIAL AFFAIRS

REPORT ON JIANGSU ECONOMIC, SOCIAL DEVELOPMENT

OW201321 Nanjing XINHUA RIBAO in Chinese 16 May 85 p 2

[Report on Fulfillment of the 1984 National Economic Plan and the 1985 National Economic and Social Development Plan in Jiangsu (Excerpts), delivered at the Third Session of the Sixth Jiangsu Provincial People's Congress on 8 May 1985, by Chen Mengling, chairman of the provincial planning and economic committee.]

[Text] I. Fulfillment of the 1984 Plan

Continuing to implement the policy of invigorating the domestic economy and opening to the outside world, the people of our province accelerated the restructuring of the national economy as a whole with the focus on the urban economy, and made new achievements in national economic and social development in 1984. The total industrial and agricultural output value was 18.7 percent up from the previous year's figures, and 112.7 percent of the year's plan. The national income (preliminary estimates) was 19.5 percent above the previous year, and 116 percent of the year's plan. Revenues increased 8.4 percent, at constant figures, and were 103.3 percent of the adjusted budget.

We had an all-round agricultural bumper harvest, and the rural product structure underwent a big change. Total agricultural output value grew 17.2 percent from the previous year. Grain output increased 9.8 percent from the previous year, and the provincial average per-capita amount of grain exceeded 1,000 jin. Cash crops and forestry, animal husbandry, sideline production and fishery also grew considerably. The output value of forestry, animal husbandry, sideline production, and fishery accounted for 49.8 percent of the total agricultural output value. Throughout the rural areas, over 2 million members of the labor force left their cultivated land for non-farming undertakings. The rural economy advanced another step on the road of comprehensive development of agriculture, forestry, animal husbandry, sideline production, and fishery, and the joint operation of industry, commerce, building, transport, and the service trades.

Industrial production continued to grow steadily, and the output of major products reached a new high. The provincial total industrial output value increased 19.4 percent from the previous year's figures, and was 13 percent over the year's plan. The output plans for 92 of the 100 major industrial products were fulfilled or overfulfilled. The output of such industrial products as fuel, and raw and semifinished materials, increased faster, and that of the various daily necessities increased quite considerably.

Transport, and the post and telecommunications departments, overfulfilled their annual plans. Local transport departments carried a total of 440.34 million people, with a gross volume of passenger transportation of 13.08 billion person-kilometers; volume of cargo handled was 123.66 million tons, and the gross volume of cargo transported, 15.44 billion ton-kilometers. Post and telecommunications transactions increased 14 percent over the previous year.

Construction of key projects was stressed, and technical transformation quickened. Investment in capital construction of state owned units increased 28.6 percent from the previous year. Annual plans for construction of the 9 key state projects, required for completion within reasonable time, were all fulfilled. State-owned units' investment in technical transformation grew 5.2 percent from the previous year. Among the more than 4,300 technical transformation and renovation times, over 2,400 were completed, more than those completed in the previous year.

Domestic and foreign trade further expanded, and imports of technology with foreign capital increased. The provincial total purchase of commodities topped the previous year's record by 8.3 percent. Total retail sales of social commodities increased 18.6 percent, and outstripped the year's plan by 16.6 percent. Total export volume increased 7.6 percent, and topped the year's plan by 25 percent. The province signed 713 contracts for importing technology, and for economic and technical cooperation with foreign capital or foreign exchange loans, totalling U.S. \$356 million, more than the totals of the several preceeding years combined.

New achievements were made in science, technology, and personnel training, and a new development was scored in various social undertakings. A total of 1,200 scientific and technical research results were achieved throughout the province, 68 of them major. Many of these results were popularized in production and construction, effectively promoting technical progress in industrial and agricultural production, and in the enterprises. Regular colleges and universities throughout the province enrolled 34,000 students, 29.7 percent more than in the previous year, and the broadcasting, TV and workers' universities enrolled 22,000 students, 29.4 percent more. Enrollment of vocational and agricultural middle schools increased 39.5 percent. The unitary structure of secondary education was thus changed. The number of hospital beds throughout the province increased 2 percent over that at the end of the previous year. Cultural, physical education, publication, journalism, broadcasting, TV, and tourism undertakings all witnessed development.

The people's income further increased and their living standards continued to improve. According to a sample survey, the peasants' per capita income in our province increased by 25.6 percent in 1984 as compared with 1983. A sample survey of worker and staff households showed a 20.7 percent increase in their 1984 average per capita income for expenses. By the end of 1984, urban and rural residents' bank savings rose 31.3 percent from 1983. In 1984 jobs were given to 154,600 people in the province. The people's housing conditions were further improved, as new houses, with a total floor space of more than 80 million square meters, were built in urban and rural areas.



To sum up, the 1984 provincial economic plan was well implemented. However, some problems which merited our attention still existed in our economic life. One was that our economic efficiency was not good. Consumption of raw and processed materials and energy failed to meet planned requirements. Some enterprises failed to make rapid improvements in their management and operations, and still incurred irrational losses. Their production safety conditions were not very good either. Next was that investment in fixed assets was a bit too heavy. The third one was that changes in the structure of production and the product mix did not match the changes in consumption patterns, causing conspicuous contradictions between market supply and market demand. Development of the tertiary industry was slow in both urban and rural areas. The percentage of agricultural crops of superior quality was a bit too small due to unbalanced agricultural structure. Some localities attached importance to cash crops and village and town industry and overlooked grain production. Famous-brand and good-quality industrial products were small in both variety and output and their supply fell short of demand. The fourth problem was that the conspicuous contradictions between supply and demand of energy and raw and processed materials obstructed the economic development of this province.

## II. The Tasks and Major Targets of the 1985 Plan

In 1985, the primary tasks of this province in economic and social development are to carry out actively and reliably the reform of the economic structure, further implement the policy of invigorating domestic economy and opening to the outside world, ensure a steady and coordinated economic development on the basis of development of production, fulfill in an all-round way and overfulfill the tasks of the Sixth 5-Year Plan, and make preparations for economic development in the Seventh 5-Year Plan period.

The specific tasks and major targets of the 1985 plan are an 8.5 percent increase over last year in gross value of industrial and agricultural production, with total agricultural output value to increase by 7 percent; and total industrial output value to increase by 9 percent; and an 8.5 percent increase in provincial income.

1. We should continue to do a good job in readjusting agricultural crop patterns according to market demand, and spare no effort in promoting grain production and diversified undertakings. We should firmly do a good job in grain processing, promote development of animal husbandry, aquaculture, and processing of agricultural and sideline products, and bring about a virtuous cycle in rural economy.

2. Industrially we should strive to increase the output of consumer goods, energy and raw and processed materials, and emphasize improving efficiency and quality, increasing variety, and raising the technological level. The 1985 plan calls for an 8.8 percent increase over last year in the output value of light industry, and a 9.1 percent increase in the output value of heavy industry. To meet the market demand, we should continue to implement the policy of "six priorities" in the production of consumer goods for daily use. Under the policy, outstanding producers of consumer goods will enjoy

Under the policy, outstanding producers of consumer goods will enjoy priority in the supply of energy and raw and processed materials, technological transformation, capital construction, bank loans, foreign exchanges, and transport. On the basis of quality improvement, we should strive to increase the production of marketable consumer goods for daily use in order to meet the market demand and accelerate the withdrawal of currency from circulation. The 1985 plan shows that coal, electricity, and rolled steel are still in short supply, and we must practice economy and multiple use of them to achieve better economic results and faster growth. At the same time, we should speed up the development of new industries.

We should truly strive to improve economic efficiency in all economic sectors, prevent blind pursuit of impractical high growth rate, and achieve a steady and coordinated development on the basis of the improvement of overall economic results and social effects.

3. In communications and transportation, we should ensure the accomplishment of transportation of key materials of the state. While working to increase transportation means and expand transportation capability, we should make further efforts to improve means of transportation, strengthen administrative work, improve services, and ensure safety.

4. In fixed assets' investment, we should first ensure the smooth implementation of key development projects, and give priority to technological transformation. Our total volume of fixed assets investments of 1985 is 12.9 percent larger than that of 1984. We should ensure that everything is done to meet the needs of carrying out key development projects. Construction work on the 33 large and medium-sized projects listed in the state's plan should be well organized, according to the state's work schedule. Funds allocated for technological transformation increased by 17 percent over last year's figure. The emphasis of technological transformation is placed on reducing energy and raw material consumption, upgrading products and developing new ones, increasing product variety, improving quality, expanding production capacity of famous brands, and products falling short of demand, controlling environmental pollution, and improving working conditions.

5. We should vigorously promote internal and foreign trade, and speed up development of tertiary industry. In order to invigorate urban and rural markets, and to accommodate the change in the public consumption pattern, one of our major tasks in 1985 is to readjust the structure of light textile industrial products. We should strive to increase the production of widely-demanded textile products, home electrical appliances, famous brand bicycles, and foodstuffs. At the same time, we should make vigorous efforts to develop a multifarious commercial service, catering industry, and repair business, as well as expanding the service network and improving service quality. We should further step up commodity interflow between urban and rural areas. The total planned increase in procurement of commodities for export is 15.3 percent over last year, and the total export volume is projected to increase by 26.1 percent. In addition, we should do a good job in reforming the foreign trade system, and strive to expand foreign trade, increase exports, and earn more foreign exchange.

In another field of endeavor, we should step up development of tertiary industry, in order to keep pace with the development of commodity production. In addition to traditional service trades, we should take the initiative in developing the information, consultation and leasing services, in order to better serve the modernization drive.

6. We should vigorously step up development in the science, education, culture, public health, and sports fields. In the scientific and technological field, we must accomplish the major scientific research projects specified in the Sixth 5-Year Plan, and make timely efforts to popularize the application of important scientific and technological research results in industrial and agricultural production, so that these will turn into a practical productive force. In education, we should quicken the pace of reform, improve educational quality, and cultivate more capable people. General provincial institutes of higher learning plan to recruit 38,000 students, 8.7 percent more than last year. The number of students to be admitted to television and staff-and-workers universities is planned to increase by 11.2 percent over last year. Secondary vocational schools will enroll 9 percent more students than last year. We have also formulated plans for the development of culture, public health, sports, and other public utility fields, and will continue our good work in family planning.

### III A Few Major Tasks to Be Accomplished to Fulfill the 1985 Plan.

#### 1. Speed up reform of the planning system in a positive and planned manner.

In reforming the planning system, it is first necessary to do away with the traditional concepts of viewing the planned and commodity economy as two systems vying with one another. In practicing planning management, based on, and applying, the law of value, we should establish a unified and flexible planning system. By means of balanced planning, and through economic regulation, we should ensure the observance of principles and policies, and allow lower levels to have a free hand in minor issues, to achieve coordinated economic development.

The main tasks in the reform of the planning system are to properly reduce the scope of mandatory planning step by step and properly expand the scope of guidance planning and market regulation. Mandatory planning will be applied to some important products that must be distributed by the state because they have a bearing on the national economy and the people's livelihood, and to major economic activities that have a bearing on the overall situation. Guidance planning will be applied to other important products and general economic activities. Some agricultural and sideline products, small commodities for daily use, and the work of service and repair trades will be completely regulated by the market. In light of the current situation, we have applied guidance planning to the production of all major agricultural products since the beginning of this year. The purchase of major farm products is made by signing contracts with the peasants. Industrial products controlled by the provincial planning and economic committee under mandatory planning have been reduced from 100 to 60. Industrial products purchased and distributed under mandatory planning have been reduced to 23 from 36.

While the scope of mandatory planning is being reduced and the scope of guidance planning is being accordingly expanded, we should improve guidance planning management and guide and promote the fulfillment of guidance plans by using such economic levers as pricing, taxation, and credit loans and such economic means as distribution of investment, foreign exchanges, and important materials. While carrying out the reform of the planning system, we should improve planning methods, attach great importance to economic information and forecast, and make the planning more scientific.

2. Strengthen control of macroeconomic activities, and do a good job in comprehensive balance.

In strengthening control of macroeconomic activities, we plan to gradually formulate well the overall plans for finance, materials, investment in fixed assets, and foreign exchanges. At present, we will first control strictly the size of the investment in fixed assets, the amount of credit loans, the increase in consumption funds, and the use of foreign exchanges.

Investment in fixed assets should be made strictly in accordance with the control targets set by the state. When examining and approving a construction project, special attention should be paid to the comprehensive balance between capital construction funds and materials. New projects should be strictly examined before they are approved. Investment with local funds not covered in the state budget should also be correctly guided. Loans should be controlled in accordance with the targets set by the state. We should do a good job in regulating the capital funds to meet the needs of production and construction according to the importance and urgency of projects.

Consumption funds should be seriously handled in accordance with relevant provisions issued by the party Central Committee, the State Council, the provincial party committee and the provincial government. It is prohibited to indiscriminately issue bonuses and allowances in cash or in kind, retain special-purpose funds in violation of state regulations, and transform production funds into consumption funds. We should exercise strict control over institutional purchases. In distributing the income of collectively-owned enterprises and village and town enterprises, we should set a proper ratio between accumulation and consumption in order to facilitate the expansion of reproduction.

In the management of foreign exchanges, we should adhere to a principle of dividing responsibilities among various levels; seriously achieve balance; exercise strict control over the sale of foreign exchanges in accordance with state provisions; and spend our limited foreign exchanges selectively on importing advanced foreign technology, developing the production of export products, and enhancing our ability to earn more foreign exchanges. We should prevent overlap and importing blindly. We should take advantage of the favorable conditions of open cities and regions to increase export, upgrade our export products and raise the level of our export product processing, increase patterns and variety, export more final products, and strive to earn more foreign exchanges.

While strengthening control of macroeconomic activities, we should also do a good job in economic legislation and the judiciary, improve the management of finance, taxes, auditing work, prices, and industrial and commercial administration, and strengthen the inspection and supervision over economic work.

3. Accelerate technological transformation and pay close attention to key construction projects.

We must, in line with the requirements of the State Council, persistently implement the shift of focus in our construction policy; attend to technological transformation, renovation, and expansion of enterprises; and, under the overall guidance of the plan for technological transformation, do a good job in applying, digesting, and assimilating imported technology and equipment so that we can manufacture such equipment by ourselves as early as possible. Meanwhile, we should expand the technology market and promote technology transfers from research institutes to production units, from the defense industry to civilian industries, from South Jiangsu to North Jiangsu, and from abroad to China. We must guide the direction of investment through economic information, supervision, and other means. It is necessary to establish a consultation and evaluation system for major technological transformation projects. The provincial authorities plan to set aside some money as low-interest loans or special funds for the transformation of major enterprises and key products and give priority to the transformation of large and medium-sized key enterprises and the development of brand-name, high-quality products and export products. We must make vigorous efforts to implement projects that have already been decided on and put them into operation as early as possible.

We should bring the scale of investment in capital construction under control in accordance with the plan. The investment obtained in the form of bank loans in place of budgetary allocations and the investment obtained from other bank loans are to be used mainly for ensuring the success of key construction projects in the fields of energy, especially electricity, and of transport, and raw and semifinished materials, while giving due consideration to the needs of projects in other fields. Construction of ordinary processing factories must be brought under control so that extra-budgetary funds pooled from various localities, departments, and enterprises and the materials procured with them will be diverted to key construction projects in energy, transport, and intellectual development. The provincial departments and cities concerned should pay special attention to the nine projects undertaken by the State Council in our province, promptly solve local problems arising from these projects, and ensure the progress of construction. Appropriate arrangements should also be made for subsidiary local projects, including some reprocessing projects.

We should continue to work toward shortening the construction cycle and raising efficiency both in capital construction and in technological transformation. We should coordinate economic benefits, environmental benefits, and social benefits in dealing with existing pollution sources and strictly enforce the policy of "three benefits" with regard to new, expansion, and renovation projects to prevent new pollution. We should also prevent pollution and earnestly protect the ecological environment in developing town and village industries.

4. Actively promote development in South Jiangsu and speed up development in North Jiangsu.

In developing North Jiangsu, we should currently pay attention to three matters: First, transport construction; second, strengthening the development of intellectual resources; and third, providing necessary support in the form of economic policy. Tax exemption should continue to be granted to new town and village industries in North Jiangsu. The province plans to appropriate 30 million yuan again this year to support the development of town and village industries in North Jiangsu. Appropriate financial aid will be given to 13 counties, including Feng and Shuyang, whose financial revenues are relatively low, in line with the relevant regulations of the provincial government. In promoting development in South Jiangsu, we should, on the basis of systematic surveys and overall plans, lay stress on transforming traditional industries and developing new industries.

Meanwhile, efforts should be made to effectively readjust the production structure and gradually form a production structure which combines trade, industry, and agriculture. It is necessary to vigorously expand the mass production of brand-name, high-quality products and export products to meet market needs both at home and abroad. It is necessary to fully utilize the strong points of open cities and areas to expand export trade, increase our ability to earn foreign exchange, accelerate the import of technology, strengthen our contacts both at home and abroad, and promote the economic development of our province.

5. Redouble our efforts to develop intellectual resources and expand our endeavors in the fields of education and science.

In the employment and training of personnel, we should, first of all, continue to earnestly implement the party's policy toward intellectuals, promote the rational exchange of personnel, and give full rein to existing personnel by breaking down the barriers hampering personnel exchange. Second, we should readjust the educational structure, implement educational reforms, develop schools of all kinds and all levels with resources acquired through multiple channels, fully tap our potentials, and suit training to the needs of the job market. It is necessary to readjust the setup of specialities by laying more stress on the training of management and administrative personnel and on financial, banking, legal, foreign trade, tourist, and teacher-training education, and achieve a rather rational proportion of high, medium, and low-level personnel and of specialized personnel of all trades so as to meet the needs of economic and social development. Third, we should do a good job in forecasting personnel needs, increase the proportion of specialities which are either in great demand or nonexistent, and hire from outside the province urgently needed personnel of all trades. Science and technology should further be geared to the needs of economic development. It is necessary to organize personnel to tackle selected key projects, vigorously carry out scientific research on new technologies and projects with strong potential for application, quickly apply them in production, and make them yield greater results. We should open the technology market and encourage scientific and technical personnel to solve technical problems of all kinds in production units and make greater contributions to promoting technical progress and raising economic results.

PROVINCIAL AFFAIRS

REPORT ON SICHUAN'S ECONOMIC, SOCIAL DEVELOPMENT PLAN

HK210807 Chengdu SICHUAN RIBAO in Chinese 18 May 85 p 2-3

[Report: "Excerpts of the Draft Report on Sichuan Province's National Economic and Social Development Plan for 1985, Given by Jiang Minkuan, Vice Governor and Director of the Economic Planning Committee, at the Third Session of the Sixth Sichuan Provincial People's Congress on 6 May 1985"-- passages within slantlines published in boldface]

[Text] Fellow deputies:

Mandated by the provincial people's government, I hereby submit to the congress for examination and approval the report on the implementation of the 1984 national economic and social development plan and on the plan for 1985 (revised draft).

Implementation of the 1984 Plan

In 1984, the principle of enlivening the economy at home and opening the door to the outside world was conscientiously implemented, and vigorous action was taken to press forward the reform, to streamline administration, to delegate power to lower levels, to invigorate enterprises, and to make circulation brisk. As a result, the national economy and various social undertakings have been developing rapidly, and encouraging achievements have been scored on various fronts. All the major targets laid down in the 1984 economic and social development plan approved by the second session of the Sixth Provincial People's Congress were fulfilled or overfulfilled, and the goal set forth by the congress, of fulfilling the major norms set in the "Sixth 5-Year Plan" a year ahead of schedule, was realized. In 1984, the province's gross social output value totaled 83.1 billion yuan, an increase of 13 percent over the previous year and an excess of 11.8 billion yuan over the target for 1985 laid down in the "Sixth 5-Year Plan". The gross industrial and agricultural output value totaled 67.11 billion yuan, an increase of 13.1 percent over the previous year and an excess of 5.81 billion yuan over the target laid down in the "Sixth 5-Year Plan." The national income totaled 39.4 billion yuan, an increase of 12.6 percent and an excess of 4.1 billion yuan over the target laid down in the "Sixth 5-Year Plan." The financial revenue totaled 4.637 billion yuan, an increase of 15 percent and an excess of 558 million yuan over the target laid down in the

"Sixth 5-Year Plan." The production of 7 out of 11 major agricultural products covered by the "Sixth 5-Year Plan" reached, ahead of schedule, the targets for the year 1985; while the production of 37 out of 59 major industrial products reached, ahead of schedule, the targets for 1985 as well.

Circulation channels have been further dredged and the markets in town and country have been brisk. Consequently, there has been an ample supply of goods in the off seasons and the sales volume of durable consumer goods and medium- and high-grade commodities has increased drastically. The total retail sales value of commodities amounted to 22.5 billion yuan, an increase of 17.1 percent. In the wake of the initial reform of the circulation system, a number of trade centers and wholesale markets with their own special characteristics have been set up, the proportion of industrial products to be marketed by enterprises themselves has been expanded, and the commercial retail sales volume of enterprises under all types of ownership has increased. A circulation with more channels and fewer links is taking shape. Both the export commodity procurement quota for foreign trade departments and the export quota to be handled by enterprises themselves were overfulfilled during the year. The total value of procured export commodities for the whole year amounted to 1.08 billion yuan, equivalent to 120.6 percent of the year's quota; while the value of goods exported by enterprises themselves totaled 200 million, an equivalent of 139 percent of the quota for the year and an increase of 69.3 percent over the previous year.

Scientific research, education, and other social undertakings have made new progress. Units throughout the province achieved success in 498 major scientific and technological research projects, of which 155 projects won scientific and technological achievement prizes awarded by the province. The ordinary institutes of higher learning in the province recruited 1,114 graduate students, an increase of 48.7 percent; and 32,198 undergraduates and students for professional training, an increase of 31.4 percent. The technical secondary schools in the province recruited 39,581 students, an increase of 9.6 percent. The educational setup has been adjusted, with vocational and technical education being strengthened. Cultural, artistic, opera, journalism, radio and television broadcasting, and publishing units have done a great deal of work in building socialist spiritual civilization and have presented a number of fine works and made some significant contributions. Eleven theatrical and artistic items, including the feature film "A Girl in Red," the opera "The Torch Festival," the Sichuan opera "The Lotus Fairy Maiden," and the acrobatic item "Cup Juggling," won national prizes. Public health services continued to develop, the number of hospital beds increased by 2,500 and a number of family-run clinic beds have been installed. The sports and physical culture front achieved tremendous successes, athletes from our province broke 1 world record, 5 olympic games records, 1 Asian record, and 14 national records. Our athletes also won 15 gold or silver medals at international sports events and 71 gold or silver medals at nationwide sport events. Meanwhile, the mass sports activities have further developed.

With production developed, the livelihood of the people in town and country continued to improve. According to sampling statistics, the peasants' per-capita net income amounted to 286.76 yuan an increase of 11 percent. Meanwhile,



staff and workers per-capita disposable income increased by 15.7 percent, with the increase in the commodity price index taken into account. A total of 250,000 people in cities and towns who had been seeking jobs obtained employment. By the end of the year, total savings deposits of residents in town and country totaled 6.62 billion yuan, an increase of 40.6 percent. Birth control work was carried out in depth and the natural rate of population increase dropped from 6.05 per thousand in the previous year to 3.7 per thousand in the year in question.

Last year's economic development had the following five features:

First, the year witnessed an overall economic growth and conspicuous improvement of economic results. Last year the growth in the gross industrial and agricultural output value was 13.1 percent, of which the growth in agriculture was 10.5 percent, that in light industry was 14 percent, and that in heavy industry was 16 percent. In consequence, the ratio between agriculture, light industry, and heavy industry has become more reasonable. It is gratifying to see that the growth in these aspects was realized on the premise that economic results were improved. For the first time, the per capita productivity in the industrial enterprises that practice the independent accounting system under ownership by the whole people exceeded 10,000 yuan, amounting to 10,790 yuan, an increase of 12.8 percent. As for the local state-owned industrial enterprises included in the state budget, the gross output value increased by 13.1 percent, revenue arising from sales increased by 13 percent, and profits and sales tax payment increased by 14.1 percent, that is to say there was a synchronous growth in the three figures. Meanwhile, the turnover cycle for working funds has been shortened from 115.49 days in the previous year to 110.95 days last year. The comprehensive energy consumption for every 100,000 yuan of gross industrial and agricultural output value has dropped from 7.27 tons of standard coal in the previous year to 6.83 tons last year. This new situation, characterized by sustained, steady, and harmonious development, is the result of the implementation of the principle of "readjusting, restructuring, consolidating, and improving" which is of far-reaching significance to our province's economic development in the future.

Second, there was considerable growth in the energy industry, transportation, and raw material production, which used to be weak links hampering economic development in our province. Last year, our province's output of primary energy increased by 10.4 percent over the previous year, the highest annual growth in the past few years. To specify it in separate items, the output of raw coal increased by 12.1 percent, that of natural gas by 3.8 percent, and that of hydropower by 8.1 percent. The volume of freight transport handled by various transport means increased by 18.8 percent. In particular, several million tons of backlogged freight piled up along railways has basically been cleared, progress has been made in promoting outbound transport via the Chang Jiang, and the outbound freight volume handled by local water transport departments increased by 53.8 percent. As for the production of principal raw materials, the output of steel increased by 9.1 percent, that of rolled steel increased by 6.1 percent, that of timber increased by 24.6 percent, and that of cement increased by 15.9 percent. The growth in all these production sectors has given an impetus to production and construction.

Third, importance has been attached to the development and application of new technology and new products, and great progress has been made in improving the quality of major products. The integration of scientific research and production has resulted in great success. As fine hybrid varieties and the technique of plastic sheet-covered cultivation have been extensively popularized, agricultural output has been raised conspicuously. As for industry, some 1,400 new products and varieties were developed. The rate of improvement in stability of quality of products has been raised to 88 percent, while the rate of quality products was raised from 8.9 percent in the previous year to 11 percent last year. Over the whole year, the province won 9 national gold medals and 29 silver medals, with the total number of medals being double that won in the previous year. There was a total of 3 products awarded superior quality product prizes by the province.

Fourth, the guidelines for investment in fixed assets have been adjusted, and the construction of key projects and technological transformation have been further strengthened. Last year, investments in fixed assets made by enterprises under the ownership by the whole people totaled 5.085 billion yuan, an increase of 11.8 percent over the previous year. Of these investments in capital construction amounted to 3.178 billion yuan, an increase of 5.8 percent over the previous year. As a result of the adjustment of the guidelines for investment, the province's investment in the energy industry increased by 11.8 percent and accounted for 20.1 percent of the total investment in capital construction; the investment in transportation and postal and telecommunications services increased by 34.7 percent and accounted for 10.5 percent of the total investment in capital construction; and the investment in scientific research and education increased by 22.3 percent and accounted for 12.3 percent of the total investment in capital construction.

The plan for key project construction was fulfilled smoothly. The investment in 38 large- and medium-scale projects included in the state plan totaled 873 million yuan, equivalent to 99.9 percent of the annual quota, a rate which is higher than the province's overall rate of completed investment to capital construction quota. Technological transformation has been further strengthened. A total of 4,015 projects of technological transformation were started, which involved a total investment of 1.907 billion yuan, an increase of 23.7 percent over the previous year. Of the investments in the production sector, those used to increase the variety of products were raised by 52.5 percent; those used to improve the specifications and quality of products were raised by 6.5 percent, those used to improve transportation, postal, and telecommunications facilities were raised by 22.5 percent, and those used to strengthen labor safety devices were raised by 27.5 percent.

Fifth, horizontal economic ties have been strengthened. While further promoting economic and technological cooperation with other provinces and foreign countries, the province has pressed on with cooperation in a more extensive and deep-going way. The experience of the Chongqing jialing motorcycle integrated complex and the Chengdu machinery general plant, which promoted economic combination in product development, is being popularized. The province has made great progress in economic and technological

cooperation with other provinces. So far the province has established economic and technological cooperative ties with 28 provinces, autonomous regions, and municipalities and has concluded a large number of economic and technological cooperation projects. The province has also made new progress in economic and technological cooperation with foreign countries. So far the province has established economic and technological cooperative ties with more than 80 countries and regions in the world and concluded 109 projects to make use of foreign funds and import foreign technology last year.

Fellow deputies! The economic situation in the province was excellent last year. However, we are still faced with many difficulties and problems in our way ahead. Apart from the sustained shortage of energy, communications facilities, and some raw materials, we are faced with several other problems: First, the growth in the net amount of money in circulation and loans granted was a little too high in the fourth quarter, especially in December last year. Second, consumption funds increased a little too rapidly. Last year, the figures for both total salaries and per-capita salary increased by 15.7 percent over the previous year; and bonus payments in particular increased by 45.8 percent, which exceeded the growth in labor productivity. Unhealthy tendencies, such as arbitrarily raising salaries, indiscriminately issuing bonuses, rewards in kind, and subsidies, have emerged in a small number of units. And third, economic results are still not good enough, the target of turning deficits into profits has not yet been fulfilled, and the overall production costs of comparable products have not yet been lowered to the expected level. We are taking further measures to deal with all these problems in compliance with the state's unified plan and in light of the situation in the province.

#### Opinions on Measures Proposed in the 1985 Plan

According to the state plan and the actual situation in our province, the province's plan for the year 1985 contains the following major tasks: Conscientiously implementing the "Decision of the CPC Central Committee on Reform of the Economic Structure," further carrying out the principle of enlivening the economy at home and opening the door to the outside world, mending our pace in the reform of the whole economic structure, with the focus placed on cities, steadily and properly carrying out the reform of the pricing system and the wage system, keeping the scale of extraquota investments under control, paying more attention to macroeconomic balance and readjustment, doing a good job in market management, developing education, scientific research, and other undertakings in a planned way, and ensuring a sustained, steady, and harmonious development of the national economy, thus making preparations for the "Seventh 5-Year Plan" and laying a sound foundation for the effort to enrich the people and upgrade the economic position of the province.

The major comprehensive targets embodied in this year's plan are:

The gross social output value is expected to reach 89.8 billion yuan, an increase of 7.2 percent over last year.

The gross industrial and agricultural output value is expected to reach 71.93 billion yuan, an increase of 7.2 percent over last year.

Of the gross industrial and agricultural output value, the gross agricultural output value is set at 29.7 billion yuan, an increase of 6 percent; the gross output value contributed by town and township enterprises is set at 9 billion yuan, an increase of 25.7 percent; and the net per-capita income of rural residents is to increase by 20 yuan.

The gross industrial output value is expected to reach 42.23 billion yuan, an increase of 8 percent; of which the portion contributed by light industry will be 19.96 billion yuan, an increase of 7 percent; and that contributed by heavy industry will be 22.27 billion yuan, an increase of 9 percent.

The province's national income is to reach 42.5 billion yuan, an increase of 7 percent.

The local investment in fixed assets is set at 2.485 billion yuan, reduction of 5.7 percent. Of this investment, the investment in capital construction is set at 1.368 billion yuan, a reduction of 6.9 percent, and the investment in technological transformation projects is set at 1.17 billion yuan, a reduction of 4.1 percent.

Below I would like to brief you on several major aspects of the plan.

/First, on the arrangement concerning the speed of economic development./

In order to fulfill ahead of schedule the goal of quadrupling production output, the whole province must maintain a moderate economic growth rate on the premise that economic results are improved. The revised draft of the 1985 plan proposes that the growth in both the gross social output value and the gross industrial and agricultural output value of the province be 7.2 percent, lower than the actual growth achieved in the 3 previous years. We hold that this development speed, which allows for some margin, is more in accord with the actual situation. This arrangement can guide people to concentrate their attention on the improvement of economic results, but not to vie with one another in blindly seeking high speed. It can also help to avoid serious shortages of raw materials, fuel, and transport facilities. Having left some margin, so that enterprises can possibly exceed the output quota, this arrangement can help to further invigorate enterprises.

/Second, on the arrangement concerning major targets in industrial and agricultural production./

This year's industrial and agricultural production plan will further reduce the scope of mandatory planning and expand the scope of guidance planning will be comprehensively carried out in agriculture, while the number of quotas set in the mandatory planning for industrial production is to be reduced from 159 last year to 55 this year.

Most of the quotas in the agricultural production plan have been set higher than those in last year's plan. The quotas for grain and cotton production especially have been readjusted. Grain output totaled 81.59 billion jin

last year; this year's quota is set at 81.5 billion jin. This arrangement is favorable to the readjustment of the production mix in rural areas as well as to a higher growth in the production of industrial crops, forestry, animal husbandry, sideline production, and fishery, and can help to speed up the development of commodity production in rural areas. In light of the actual situation across the province, however, the production quotas to produce a total of 81.5 billion jin of grain have not been fully assigned. Since the sown acreage for crops sown in the autumn was reduced by nearly 5 million mu, affecting the total output substantially, all localities are required to attach adequate importance to the production of crops sown in the spring. The sown acreage for crops sown in the spring should not be reduced any further, and it is necessary to conscientiously carry out all measures aimed at raising output and to make every effort to fulfill the annual plan of producing a total of 81.5 billion jin of grain. As a large province with a population of 100 million, our province should, after all, never overlook grain production. While realizing the readjustment of the production mix in rural areas, we must ensure a steady growth in grain production in the province. We must concentrate our efforts on raising the yield per unit area, rationalizing the planting layout for industrial crops, reclaiming uncultivated land, and developing town and township enterprises. According to this year's plan, the output value of town and township enterprises is set at 9 billion yuan. While improving economic results, these enterprises are, however, expected to raise their output value beyond 10 billion yuan by doing their utmost. The cotton output quota is also set at a level slightly lower than the actual output last year. Basically, in view of the fact that the state calls for control of cotton production, we are not allowed to blindly raise cotton production.

Most of the output quotas for major industrial products are set higher than those in last year's plan, with some of them lower than the actual output last year. Due to restrictions of market conditions, the output quotas of some products, such as phosphate fertilizer and crude salt, should not be set too high lest there be overstocking, although we have ample production capacity. Energy and some raw materials will still be in short supply this year, which is an important factor restricting economic development. The economy will develop more smoothly as long as we can raise the output of these products. Therefore, all enterprises producing energy and raw materials must strengthen management, tap their own latent power, ensure the fulfillment of their production plans and make efforts to raise their output and overfulfill their output quotas, thus make greater contributions to the province's economic development.

/Third, on the arrangements concerning investment in fixed assets./

In the revised draft of this year's plan, the quota for local investment in fixed assets is lower than that for last year basically because the base figures for comparison used in the plan have been changed. If calculated on same base figures, this year's total investment would actually be higher than that for last year. The principles followed in allocating investment under control, to ensure the completion of key projects, do a good job in the reform, and to improve economic results. In light of the needs and our

capability and with the historical conditions taken into account, investments in energy, communications, the raw material industries, agriculture, culture and education, and public health services have been increased in the plan. With consideration given to the areas inhabited by minority nationalities in respect of investment, the investment funds allocated to these areas will be increased. Investments in technological transformation will mainly be used to introduce new technology, to renew equipment, to upgrade the quality of products, to increase the designs and variety of products, to minimize consumption and save energy, to treat waste gas, waste water, and industrial residue, to strengthen labor protection, and so on. All areas and all departments must strengthen control over investment in fixed assets and should never expand the scale of investment beyond the plan. It is necessary to give priority to the construction of key projects, to extended projects, and to winding up projects, and to make sure that they will be completed as scheduled. No new projects will be started in general, except certain projects that are of great significance to the province's economic development. As for the investments that are to be started with locally raised funds, it is necessary to handle properly those which can score good results within the current year and to try our best to attract investment funds to the energy industry, communications, raw materials production, and the development of intellectual resources, with special attention paid to a moderate increase in the investment in cultural services, education, and public health. It is necessary to carry out reform of the management system for investment in fixed assets, to establish the project responsibility system, and to implement step by step the tender system for construction projects and the contract system for investments, so as to shorten the project construction cycle and improve the economic results of investment.

/Fourth, on the balance between the supply and demand for materials./

In light of the existing resources of society and social demand, the balance between supply and demand can be maintained this year for most of the major materials needed by the province. But due to a substantial reduction in the supply of those resources subject to unified distribution as compared with last year, we will be faced with considerable shortages and can only maintain distribution on a scale equal to that of last year at the most. As for administration of material supply, it is necessary to change the traditional practice of paying attention solely to planned distribution, to attach importance to the regulative role of market mechanism, to actively tap the resources of society, to press on with the economy drive, and to take active measures to replace materials in short supply with substitutes, thus making sure that all needs are met in production and construction. There will be several changes with respect to planned distribution of materials: First, for the supply of the "three materials," [rolled steel, timber, and cement] that are needed for investment in fixed assets, the distribution plan mainly covers the province's key capital construction and technological transformation projects. Under the budget, investment projects which are to be financed by loans, rather than by appropriation as suggested by the original plan, as well as projects which are authorized by departments, are to receive material subsidies on a fixed-quota basis. Meanwhile, those construction projects financed by locally raised funds are, in principle, to obtain materials from the market. Second, unified distribution of materials

needed for production of electromechanical products is to be linked to the mandatory planning for production. Third, from 1985 on, timber will no longer be covered by the state unified distribution program, and the province is to supply the timber it needs. Fourth, cement produced by major cement plants is to be mainly allocated to key capital construction projects and technological transformation projects; meanwhile, a moderate amount of cement will also be allocated exclusively to the five prefectures of Ganzi, Liangshan, Chengdu, Yaan, and Dukou. Fifth, the province is to keep unified control over the allocation of the materials needed by the projects that local enterprises run in cooperation with other provinces. In particular, whoever is to benefit from a project is to take care of the supply of materials. Sixth, for those areas, departments, and enterprises which fail to fulfill mandatory planning for material turned over, their distribution quota for the following year will be reduced or their quotas for material turned over will be raised; in addition, the fines imposed on these areas, departments, and enterprises will be doubled so that the fulfillment of the plan for the turning over of material will be guaranteed.

/Fifth, on balance in supply of energy./

There is still a very conspicuous discrepancy between the output and the demand for energy. There will be comparatively serious shortages of coal, electricity, and gas. The shortage of electricity will become particularly serious during the dry season. We will make up the shortage mainly by raising production and reducing consumption. While the output quotas for coal, electricity, and gas laid down in the revised draft of the plan are bound to be fulfilled, all coal mines at and above the provincial level are required to raise their output of coal by 1 million tons, the power plants in charge of the supply of electricity to the main power transmission network are required to raise their output by 500 million kilowatt-hours, and the natural gas wells supplying gas to major gas pipelines are required to raise their output by 100 million cubic meters. It is necessary to press on with the saving of energy--we must ensure that the plan to save 2 million tons of standard coal will be fulfilled, and we are to save 4 percent of natural gas, coal, and coke, 3 percent of electricity, and about 5 percent of water.

/Sixth, on circulation of commodities and distribution to the market./

As agricultural and sideline products are to withdraw from the system of unified and fixed purchase step by step, and state organizations, non-productive service units, and enterprises are to carry out the reform of the wage system, there will be a relatively conspicuous growth of purchasing power this year and the market will be faced with some new circumstances. According to the revised draft of the plan, the total retail sales value of commodities in the province is to amount to 26.3 billion yuan, an increase of 16.6 percent over the previous year. In the main, the balance between the total value of commodity purchase and the total value of commodity sales will be maintained. But the existing commodity structure still cannot meet the demand arising from the purchasing power, and some capital goods and certain high- and medium-grade commodities will still be in short supply. In order to solve this problem, first of all we must devote efforts to the production and supply of marketable products with cheap prices and

and fine quality so as to meet the people's needs. Second, we must conscientiously study the new circumstances arising from the abrogation of the system of unified and fixed purchase of agricultural and sideline products, do a meticulous job in implementing contracts for the purchase of principal agricultural and sideline products, such as grain and live pigs, make timely arrangements to ensure the supply of capital goods for agriculture and industrial consumer goods, boost the flow of goods and materials between urban and rural areas, and further enliven circulation. Third, based on the need for balance between multiple channels and between multiple levels, we must conscientiously study the changes in state-owned, collective-run, and individual-operated commercial enterprises and their characteristics, and attach more importance to the roles of collective-run and individual-operated commercial enterprises as well as to country fairs, while giving full play to the role of state-owned commercial enterprises as the major channel. Fourth, in order to fulfill the need to market some capital goods, we must conscientiously operate commodity trade centers and transaction markets. By and large, we must try by every means to expand commodity circulation, vigorously promote commodity production and exchange, and make urban and rural markets brisker and more prosperous.

/Seventh, on development of such social undertakings as scientific research and education./

It is necessary to further develop scientific and technological research, culture and education, sports and physical culture, public health, and other social services, centering around the needs arising from production and construction. We must devote great efforts to the popularization of new technology and the development of new products, open the technology market, and encourage the vast number of scientific and technological workers to work harder to meet the needs of economic construction and to make greater contributions in pushing ahead with technological progress and improving economic results. According to the revised draft of the plan, a total of 122 key scientific and technological research projects are to be started and 200-250 products will be upgraded to high-quality products based on state, ministerial, or provincial standards. General institutes of higher learning will recruit 2,294 graduate students, an increase of 106 percent over last year; they will also recruit 38,800 undergraduates and students for special training courses, an increase of 20.5 percent over last year. Meanwhile, technical secondary schools will recruit a total of 49,939 students, an increase of 26.2 percent over last year. It is necessary to continue to readjust the secondary education structure, to run secondary and primary schools better, and to accelerate the development of vocational and technical education. It is necessary to do a good job in adult education and to strengthen training of cadres. Medical and public health services are to be developed. It is planned that the number of hospital beds will be increased by 4,000, family-run clinics are to be vigorously developed in cities, and local hospitals in counties, townships, and villages will be gradually improved, so as to raise the standard of medical services. It is necessary to continue to develop culture and arts, journalism, publishing, radio and television broadcasting, and sports and physical culture. All circles must cooperate closely, pay more attention to and do a better job



in family planning work, so as to keep this year's rate of natural increase of population below 7.5 per thousand. It is necessary to properly carry out the reform of the wage system and the pricing system according to the state's unified plan and to take various measures to arrange jobs for job-awaiting people in cities and towns. It is necessary to continue to improve the people's livelihood based on developed production.

#### Principal Measures to Fulfill the Plan for the Year

To ensure the fulfillment of the province's economic and social development plan for 1985, the following principal measures are to be adopted:

1. While focusing our attention on invigorating enterprises, we must mend our pace in the reform of the urban economic structure. In order to conscientiously implement the "Decision of the CPC Central Committee on Reform of the Economic Structure," the provincial government has issued the "Circular on Invigorating Enterprises and Speeding Up the Reform of the Urban Economic Structure," demanding the introduction of a comprehensive package of reforms in enterprises, with the invigorating of enterprises, especially large and medium-sized enterprises, as its key link.

Large and medium-sized industrial enterprises must focus their attention on their internal affairs, make full use of the power that the state has vested in them to perfect various responsibility systems within the enterprises, improve management and administration, do a good job in technological transformation, develop new products, expand the sale of products and spare parts, promote intertrade and transregional diversified business, develop horizontal economic combinations, and vigorously improve economic results. It is necessary to further invigorate financial business, to dredge circulation channels, to improve control over material supply, to facilitate the flow of qualified personnel, and to properly carry out the package of reforms, with the focus placed on the goal of invigorating enterprises. While invigorating the economy, we must actively strengthen macroscopic economic management, do a good job in keeping the credit balance and the balance between foreign exchange earnings and expenditure, make proper arrangements in putting money into circulation, strengthen the management of consumption funds, keep the scale of investment in fixed assets under control, and enforce discipline in the financial and economic field, so as to ensure that the reform will develop healthily and smoothly.

2. It is necessary to readjust the rural production mix and to vigorously develop commodity production. It is necessary to conscientiously implement document No 1 issued by the CPC Central Committee in 1985, to take real action to ensure the implementation of the 10 major policy measures, to establish economic structures with their own characteristics in light of local conditions, and to vigorously develop commodity production in rural areas. First, we must readjust the agricultural planting mix. While ensuring steady growth in grain output, we must attach importance to the reasonable layout of industrial crop planting and take appropriate measures to promote centralized, intensive, and specialized farming aiming at high yields. Second, we must readjust the agricultural production mix and vigorously develop forestry, animal husbandry, and fishery. While giving

full play to the favorable conditions for pig raising, we must actively develop the raising of poultry, rabbits, and other herbivorous domestic animals. Third, the economic structure is to be readjusted. We must regard developing town and township enterprises as a strategic task, vigorously develop small-sized processing industries, the building industry, commerce, and transportation, and do a good job in expanding the export of labor. We must carry out all the set policies and measures, uphold the principle of tapping the potential of enterprises under the system of ownership by the whole people and collective enterprises, as well as individuals, and strive for greater development of town and township enterprises this year. With a large population and limited farmland, our province must attach special importance to the second and third levels in readjusting the production mix in rural areas. In order to carry out the readjustment of the production mix in rural areas step by step and in a planned way, and to rationally allocate productive forces, various localities must conscientiously carry out small-zone planning under the guidance of the provincial agricultural zoning and development plan and based on the findings of thorough investigations, so as to avoid blind development. Those localities inside the basin with large populations and scarce farmland should shift to developing animal husbandry, farming, processing industries, and other new production sectors in the three autonomous prefectures and the areas around the basin, and build up economic bases there. It is necessary to preserve farmland and to conscientiously curb the malpractices of arbitrarily occupying farmland for nonagricultural use by enforcing strict examination and approval procedures. While carrying out the readjustment of the production mix, we must conscientiously implement all the policies and measures which have been adopted and give more help to old liberated areas, minority nationality areas, and remote areas, concentrating on raising their ability to develop production, thus helping these areas to change their backward state as soon as possible.

3. As for industrial production, it is necessary to continue to take the improvement of economic results as the key link and to strive hard to realize the integration of speed of development and economic results. Industrial enterprises must make use of technological achievements, vigorously develop new products and new varieties of goods, improve product quality, minimize consumption of materials, lower production costs, reduce deficits and increase profits, and make great efforts to improve economic results. We must continue to promote the production of raw materials in short supply and tap more material supply channels, so as to meet the needs of production and construction. We must raise energy production as well as enforcing the economy drive, conscientiously implementing energy-saving measures and raising production output through practicing thrift. We must further tap the latent power of communications and transport facilities; continue to promote emulation and cooperation among the coal mining industry, the electric power industry, and the transport industry; properly maintain the transportation of key products by special trains and the cyclic transportation by groups of assigned trains; properly arrange the division of labor between water and highway transport; and actively develop air freight to ease the shortage of railway transport capacity. We must strengthen leadership, make good use of specially appropriated grain, cotton, and cloth, do a good job in the construction of highways in mountainous areas, and link up all widened roads to form a highway network so as to bring the role of the existing highways into full play as soon as possible.

4. It is necessary to continue to brisk commodity circulation and financial business and to vigorously push ahead the development of commodity production. It is necessary to continue to give full play to various circulation channels; to further coordinate the relations between industry and commerce and between agriculture and commerce by adopting such forms as associations, joint ventures, sale agencies, commission agencies, and long-term contracts for the supply of goods; to stabilize existing markets, and to actively expand new markets. State-owned commercial enterprises and supply and marketing cooperatives must actively engage in regulation of the market by signing purchase contracts and taking other economic measures, do a good job in regulating supply and demand in the market, stabilize commodity prices, make sure that the market regulation mechanism operates along the right track, and give an impetus to the flow of goods and materials between city and country. In order to promote commodity production and exchange, we must further enliven financial business. Our leading comrades at all levels must personally take charge of financial work, learn how to handle financial work, and try their best to enhance the turnover rate and the utility of working funds.

5. It is necessary to go all out to develop tertiary industry in town and country and to persist in serving production and the people's livelihood. We must further enhance our understanding; conscientiously carry out various policies, measures, and the principle of tapping the potential of enterprises under the system of ownership by the whole people, collective enterprises, and individuals; and work hard to bring about a great development of tertiary industry in the province. In the near future, we should concentrate our efforts on the construction of hotels and urban public facilities; speed up construction of commercial housing projects in cities; expand the commercial services network; and develop various labor services, communications, and tourism, particularly developing technical services, inquiry services, legal services, and other inquiry services, so as to serve production, construction, and the people's livelihood better.

6. It is necessary to introduce reform of the scientific and technological research system so as to push forward technology development. We must conscientiously implement the decision of the CPC Central Committee on the reform of the scientific and technological research system, and adhere to the principle of economic construction relying on science and technology and scientific and technological research being geared to economic construction. This year, we are to place stress on the reform of the appropriation system for scientific and technological research projects, open up the technology market, raise enterprises' capacity for absorbing and developing technology, expand the decisionmaking power of scientific and technological research units, start the reform of the scientific and technological research personnel administration system, and encourage the reasonable flow of scientific and technological personnel based on the needs of economic development, so as to transform scientific and technological achievements into actual productive forces as quickly as possible. It is necessary to integrate technological transformation and technology introduction with the process of the transfer of technology from defense industrial enterprises to civil industrial enterprises, and to strengthen guidance and administration of technology import.

While continuing to introduce necessary technology and equipment, we must stress the import of software technology and pay attention to the transfer and adoption of new technology. This year, the province is to concentrate on the popularization of 20 new technology items of substantial and extensive influence and to develop 1,500 new products and new varieties of goods. Various areas and departments must mend their pace in drawing up an adjusting their own 3-year technological development plans in accordance with the requirements laid down by the second national conference on technological progress and the province's plan for implementation of technological development for 1985-87. In carrying out technological transformation of the existing enterprises, we must take the improvement of economic results as the key link and make the upgrading of product quality and the minimizing of energy and raw materials consumption our targets, give preference to the production of the products that society badly needs, adopt new technology, new technological processes, and new equipment, pay attention to integrating the technological transformation of old industrial bases and backbone enterprises with that of medium- and small-sized enterprises, and thus improve the technological quality of enterprises.

7. It is necessary to step up the consolidation of enterprises and the improvement of the quality of enterprises. This year is the third year of carrying out enterprise consolidation, the year to fulfill the task of comprehensive consolidation of enterprises. As far as this matter is concerned, we must do well from start to finish. We must strengthen leadership and integrate reform perfectly with consolidation. We must properly readjust and build the leading bodies of enterprises through the reform of the enterprise leadership system and cadre system. We must restructure labor organizations, reform the labor system, and enhance the quality of our contingent of workers and staff. It is necessary to further improve various forms of the economic responsibility system within enterprises and to reform the wage and reward systems, thus properly solving the problem of "eating from the same big pot" within enterprises. Those enterprises which have completed the consolidation project and which have received approval should expand the results of responsibility system step by step, apply modern management methods, and strive for still higher targets.

8. It is necessary to open the door of Sichuan wider and to promote extensive economic and technological cooperation with other provinces and foreign countries. We must emancipate our minds, and adopt a preferential policy to vigorously promote horizontal economic links and open up a new situation in economic and technological cooperation with other provinces and foreign countries. In economic and technological cooperation, our focal point is to be the following aspects: 1) Introducing funds, technology, equipment, and qualified personnel and transforming and expanding the existing enterprises; 2) developing the energy industry, communications, iron and steel production, the nonferrous metallurgical industry, the bittern chemical industry, and the comprehensive use of natural gas, and actively raising energy production and the production of raw materials in short supply; 3) organizing the association of production and marketing for agricultural, sideline, and local products and developing the processing and exchange of agricultural commodities; 4) jointly running tertiary industry to serve industrial and agricultural production, tourism, and the people's livelihood;

5) vigorously promoting the business of exporting labor to other provinces and foreign countries. It is necessary to correctly handle the relationship between import and export, maintain a balance between them, and to practice integration of import and export. We must give full play to the initiative of all factors, make efforts to fulfill the procurement quotas for foreign trade and the export plan, reduce the cost of earning foreign exchange, and strive for higher export volume and more foreign exchange earnings. We must pay attention to and keep abreast of developments in the market, do a good job in economic forecasting, properly select cooperation projects, and try to raise the percentage of successful transactions. We must conscientiously carry out those cooperation projects concluded at the April conference on international economic and technological cooperation and trade sponsored by the province; continue to promote economic and technological cooperation with coastal provinces and municipalities; develop extensive economic and technological cooperation among enterprises inside the province, especially between defense industrial and civil industrial enterprises and between different areas; and take effective measures to constantly add to the achievements resulting from cooperation at different levels.

9. It is necessary to strengthen leadership and to ensure that the reform is carried out smoothly. We must conscientiously carry out various tasks in the reform, in accordance with a series of essential policies concerning the structural reform laid down by the CPC Central Committee and the State Council and in light of the actual situation in the province. We must conscientiously carry out ideological and political work, especially ideological and political work related to the reform, help the vast number of staff and workers to acquire a full understanding of the purpose, significance, and prospects of the current reform of the wage and pricing systems, make meticulous preparations for the reform, work and carry out various measures according to the state's unified plan, and make sure that the reform is carried out smoothly. Leading cadres of planning and economic departments at all levels must go deep into reality, investigate new cases, study new problems, sum up new experience, take new measures, do a good job in overall planning, coordinating, rendering of services, and supervision, and thus press on with the overall development of economic construction and various social undertakings with the reform as a motive force. Fellow deputies! The current economic situation in our province is excellent. Since the beginning of this year, commodity production has developed further in rural areas, there has been a constant growth in industrial production, the development of town and township enterprises has been accelerated, the markets in town and country have become brisker, and several newly emerging unhealthy tendencies are being overcome. We firmly believe that our province is bound to overfulfill all quotas set in this year's economic and social development plan so long as the line, principles, and policies adopted since the 3d Plenary Session of the 11th CPC Central Committee and the guideline laid down by the 3d Session of the 6th NPC are strictly implemented and the work in all fields is conscientiously carried out.

PROVINCIAL AFFAIRS

BRIEFS

MORE SHOPS, SERVICES OPENING--Beijing, June 12 (XINHUA)--Nearly 12,000 shops and service centers opened in Beijing in the first five months of this year, says today's "BEIJING DAILY." This was 20 percent more than planned for the year and 2.7 times last year's figure. One-quarter are run by the state, 23 percent by collectives and 52 percent by individuals. This year's target has been doubled to 20,000, priority going to restaurants, tailors, laundries and repair centers. Fewer household and electrical goods stores will be opened than envisioned. The municipal government announced last month that premises fronting main streets must be offered for use as shops by July first, or owners would face a fine of 100 yuan per meter every three months. This has encouraged firms and individuals from Hebei, Shandong, Guangdong and elsewhere to set up in the capital. [Text] [Beijing XINHUA in English 1036 GMT 12 Jun 85 OW]

RECORD SALES CONTRACTS SIGNED--Beijing, June 26 (XINHUA)--Contracts worth a record 2.41 billion yuan were signed for the second half of this year at a recent national daily necessities fair in Anyang, Henan Province. This was 22.3 percent higher than the corresponding figure for 1984, forecasting a brisk domestic market, according to the "ECONOMIC DAILY." The fair is a semi-annual event. Among the best sellers are matches, clocks, rubber shoes, soap, detergents and cosmetics, the paper reported. Though three or four times as expensive as aluminum counterparts, stainless steel utensils, including ladles and spoons, were more popular at the fair. More product variety has been a big factor in better sales. Mirrors produced in Tianjin now come in more than 320 types, the "ECONOMIC DAILY" said. [Text] [Beijing XINHUA in English 0732 GMT 26 Jun 85 OW]

CSO: 4020/270

DOMESTIC TRADE

BRIEFS

**BARTER FAIR ENDS**--Beijing, June 25 (XINHUA)--What do you do if you are a new economic zone unable to contact suppliers of raw materials? Shanghai and its neighboring provinces which make up the Shanghai economic zone think they have the answer: You tempt them with your much sought-after light industrial goods. At a barter fair which closed here today, 700 firms from the zone got rid of 3,200 refrigerators, 24,230 washing machines, 19,600 electric fans and 150,000 pieces of furniture surplus to state purchasing quotas. In return, the hungry enterprises got 10,000 tons of iron, steel, plastics and non-ferrous metals and 1,800 cubic meters of timber. Many set up regular arrangements with some of the hundreds of customers from all over China at the two-week fair. They are pleased, and so are top state planning officials Song Ping and Yuan Baohua. "It is just one way to bridge the gap in raw materials supply," they say. [Text] [Beijing XINHUA in English 1938 GMT 25 Jun 85 OW]

**FODDER FACTORY SET UP**--Lhasa, June 21 (XINHUA)--Tibet, one of China's largest pastoral areas, has set up its first fodder-processing factory, with an annual production capacity of 5,000 tons of mixed feed. However, since the estimated annual demand from Tibetan herdsmen is as much as 10,000 tons a year, rapid expansion of the industry is imperative, a factory spokesman said. The factory was constructed with assistance from nearby Sichuan Province, and is one of the 43 projects being undertaken in the autonomous region with cooperation from other provinces and cities. Previously, many raw materials which could have been turned into fodder were wasted in Tibet because of the lack of fodder-processing facilities. [Text] [Beijing XINHUA in English 0912 GMT 21 Jun 85 OW]

**RURAL PRODUCE WHOLESALE MARKETS**--Beijing, June 25 (XINHUA)--Eight billion yuan worth of business has been conducted at 3,000 new rural-produce wholesale markets set up across China over the past year, today's "ECONOMIC DAILY" reported. They have been established by the supply and marketing cooperatives at various levels to relax state control over the distribution of agricultural and rural sideline products, and to promote commodity production. Collective and individual buyers and sellers can bargain face to face at the new markets. Peasants can also buy production equipment there, and transport and storage services can be arranged. A wholesale market in Handan City, Hebei Province, has business ties with 160 cities in 27 provinces, municipalities and autonomous regions. These new markets also serve as "shop windows." Xinghua County in Jiangsu Province has found markets for its agricultural produce by using such a "window" in the Changzhou market for agricultural and rural sideline products. Another

such market in Chongqing, Sichuan Province, has set up 30 such "shop windows" in the province and other parts of the country. Since its establishment last September, this market has helped channel more than 10,000 varieties of products between 500 enterprises, and its business turnover has reached 80 million yuan.  
[Text] [Beijing XINHUA in English 1035 GMT 25 Jun 85 OW]

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FOREIGN TRADE AND INVESTMENT

SHENYANG TO HOLD INTERNATIONAL TRADE FAIR

OW262216 Beijing XINHUA in English 1835 GMT 26 Jun 85

[Text] Shenyang, June 26 (XINHUA)--Municipal government of Shenyang, capital of Liaoning Province, will hold an international trade fair from August 27 to September 16, the city's Acting Mayor Wu Disheng said here today.

Speaking at a press conference, the mayor said that the city would discuss with foreign businessmen possibilities of setting up 38 joint-ventures and cooperative projects.

These cover machinery, electronics, chemistry, pharmaceuticals and light industry.

The fair, the mayor said, aims mainly to attract foreign investment and expand Shenyang's imports to update industry and revitalize the city's economy.

Exports of some commodities will be discussed during the fair.

As an industrial city and economic center of Northeast China, Shenyang has established economic relations with foreign firms and businessmen in 130 countries and regions.

Last year, the city imported 222 technical projects worth 120 million U.S. dollars.

The 15 companies allowed by the State Council to do business directly with foreign firms had signed 234 contracts with foreign firms worth 28 million U.S. dollars by the end of May, the mayor said.

Wu also revealed that the city will have a first-rate international airport by 1987: "We will also build a new railway station, an international trade center and a microwave telephone center."

"We warmly welcome foreign business people to Shenyang, where they will be given preferential treatment in tax, marketing, exchange of foreign currency and import and export management," Wu said.

Overseas Chinese and businessmen from Taiwan, Hong Kong and Macao will be given special care, Wu said.

FOREIGN TRADE AND INVESTMENT

SHENYANG PLANS TO EXPAND FOREIGN TRADE

OW071122 Beijing XINHUA in English 1052 GMT 7 Jun 85

[Text] Shenyang, June 7 (XINHUA)--Shenyang, capital of Liaoning Province, will become an important export goods producer in Northeast China within two or three years, said Li Zhonglu, vice-mayor of the city.

Speaking at a working conference on foreign trade which closed Wednesday, the newly-elected vice-mayor said Shenyang will try to produce more high-quality and famous-brand commodities to meet the needs of foreign buyers.

The city will also encourage joint-ventures with foreign enterprises while introducing advanced technology from foreign countries.

By the end of May, transactions concluded with foreign firms had reached 72 million U.S. dollars, he said.

One of the leading industrial bases in China, the city was given the right by the State Council to carry out a comprehensive economic reform last July. Now the city has the right to make its own economic and administrative plans.

At the beginning of this year the Ministry of Foreign Economic Relations and Trade permitted 15 enterprises in the city to handle foreign trade directly, Li said.

These firms, Li said, have entered into 234 contracts, totaling 28 million U.S. dollars, with foreign traders since January.

In the 10 days of the Guangzhou trade fair this spring, companies from Shenyang signed 195 contracts and contacted more than 300 businessmen from 30 countries.

In order to expand exports, Li said, Shenyang will try to bring the initiative of its 150 large and medium-sized enterprises into full play while thoroughly tapping its resources by transforming the traditional industries with advanced technology.

CSO: 4020/270

FOREIGN TRADE AND INVESTMENT

PRC REGULATIONS ON TECHNOLOGY ACQUISITION

HK200253 Beijing CHINA DAILY in English 19 Jun 85 p 2

["Regulations of the People's Republic of China on Administration of Technology Acquisition Contracts"--Promulgated by the State Council on 24 May 1985]

[Text] Article 1. These regulations are formulated for expanding economic and technical co-operation with other countries and upgrading the scientific and technological standard of the country to promote the nation's economic growth.

Article 2. Technology acquisition referred to in these regulations means acquisition of technology through trade or economic and technological co-operation by corporations, enterprises, other organizations or individuals within the territory of the People's Republic of China (hereinafter referred to as the recipient) from corporations, enterprises, other organizations or individuals outside the territory of the People's Republic of China (hereinafter referred to as the supplier), including:

1. acquisition of licensing of patents and other industrial property rights;
2. supply of technical know-how in the form of drawings, technical documents and specifications, such as process specifications, formulae, product design, quality control and management skills;
3. supply of technical services.

Article 3. Technology to be acquired must be advanced and appropriate and should conform at least to one of the following requirements:

1. development and production of new products;
2. improvement of quality and performance of products or reduction of cost and consumption of energy and raw materials;
3. maximum utilization of local resources;
4. expansion of export of products and increase of the earnings of foreign currency;
5. improvement of environmental protection;

6. safety of production;
7. improvement of management;
8. advancement of the scientific and technological standard.

Article 4. The recipient and the supplier shall execute a written technology transfer contract (hereinafter referred to as contract). The contract shall be submitted for approval by the recipient, within thirty days from the date of execution, to the Ministry of Foreign Economic Relations and Trade of the People's Republic of China or other agency authorized by the ministry (hereinafter referred to as the approving authority). The approving authority shall approve or reject the contract within sixty days from the date of receipt. Contracts approved shall come into effect as of the date of approval. Contracts for which approving authority does not make a decision within the specified period of time shall be regarded as approved and shall come into effect automatically.

Article 5. The conclusion of technology acquisition contracts must conform to the relevant provisions of the Foreign Economic Contract Law and other laws of the People's Republic of China.

The parties concerned must specify in the contract the following items:

1. the content, scope and the necessary description of the technology provided and the list of patents and trademarks if they are involved;
2. the technical ends to be reached and the time limit and the measures for accomplishing each of them;
3. remuneration, the structure of remuneration and the manner in which it is paid.

Article 6. The supplier should guarantee that it is the legitimate owner of the technology transferred and that the technology provided is correct, complete, effective and capable of accomplishing the technical ends specified in the contract.

Article 7. The recipient should take the obligation to keep confidential the technical secrets contained in the technology provided by the supplier according to the scope and terms agreed upon by the parties concerned.

Article 8. The duration of the contract shall conform to the time needed by the recipient to assimilate the technology provided and shall not be longer than ten years without the special permission by the approving authority.

Article 9. The supplier shall not oblige the recipient to accept requirements which are unfairly restrictive. Without special permission by the approving authority the contract shall not include any of the following restrictive provisions:

1. requiring the recipient to accept additional conditions which are not related with the technology acquired, such as requiring the recipient to pay for other technology, technical service, raw materials, equipment and products which are not needed by the recipient;
2. restricting the freedom of choice of the recipient to obtain raw materials, intermediate products or equipment from the different sources;
3. restricting the recipient from developing and improving the technology acquired;
4. restricting the recipient from acquiring similar or competing technology from different sources;
5. non-reciprocal exchange of improvements over the acquired technology;
6. restricting the volume, variety and the sales price of products manufactured with the acquired technology;
7. unduly restricting the sales channel and export market of the recipient;
8. restricting the use of the acquired technology after the expiration of the contract;
9. requiring the recipient to pay for or take on obligations for patents which will not be used or which have been invalidated.

Article 10. In applying for approval of contracts the following documents shall be submitted:

1. application for approval of the contract;
2. copy of the contract executed by the parties concerned and its Chinese translation;
3. documents evidencing the legal status of the parties executing the contract.

Article 11. Any revision and renewal of the terms of the contract shall be submitted for approval according to the provisions stipulated in Article 4 and Article 10 of these regulations.

Article 12. The Ministry of Foreign Economic Relations and Trade is responsible for interpreting these regulations and formulating the detailed rules for implementing these regulations.

Article 13. These regulations shall enter into force on the date of promulgation.

(In case of any deviation from the original text, the Chinese version supercedes.)

FOREIGN TRADE AND INVESTMENT

FOREIGN ECONOMIC RELATIONS, TRADE DEVELOPED

SK300538 Jinan DAZHONG RIBAO in Chinese 18 Apr 85 p 1

[Excerpt] Recently, our reporter had an interview with the responsible person of the provincial committee for foreign economic relations and trade to talk about our province's achievements in implementing the open-door policy, analyze prospects for foreign economic and technical cooperation, and call for opening up new spheres in foreign economic and technical exchanges.

The responsible person first reviewed and summed up the remarkable achievements our province scored in opening to the outside world over the past few years. First, we further developed foreign contacts, and expanded bastions for foreign trade. Last year, the province received 1,191 groups of businessmen, totaling 4,072 people, from other countries, Hong Kong, and Macao; and sent abroad 234 economic and trade factoring-finding teams or groups, totaling 1,253 people. So far, our province has established economic and trade contacts with some 140 countries and regions, and conducted fruitful economic and technical cooperation with hundreds of firms in Hong Kong, Macao, and other countries. In the meantime, it also exerted great efforts to expand friendly exchange activities with other countries. Last year, the province received 47 groups, totaling 611 people, of foreign guests from friendly cities, and sent 44 teams or groups in various fields, totaling 184 people, to other countries to carry out economic, technical, cultural, and educational exchanges. At present, we have established six friendly province-prefecture and city-city ties with Japan and Britain. At the same time, Governor Liang Buting led a visiting team to the Bavaria State of the FRG and the Bretagne Metropolitan Region of France last March, and signed an agreement and a letter of intention on economic and technical cooperation with them, thus establishing long-term and steady cooperative relations. Second, through various measures, the province used foreign capital to import a group of advanced technology and equipment to technically transform a group of medium-sized and small enterprises. Most of them yielded good economic results. In 1984, contracts on 362 projects of technology and equipment import by using foreign capital were signed. Transactions in these contracts totaled \$327 million, greater than the total of those of the previous 5 years. Third, we established a group of bases to produce export commodities, thus expanding the sources of export commodities, and promoting foreign trade. In 1984, the volume of export reached \$2.28 billion, the highest in our history. Fourth, through the two discussion meetings on international economic and technical cooperation

and trade held in Qingdao last year and this year, channels were widened, transactions expanded, and talented people trained. Fifth, we strengthened propaganda directed toward foreign countries, and increased the knowledge on our province of the peoples of other countries. Sixth, Qingdao and Yantai cities were further opened to foreign countries in line with the arrangements of the central authorities, and construction of the economic and technical development zones in the two cities was expedited.

The responsible person pointed out: Our province's work of opening to the outside world has been transformed from the beginning stage to a stage of rapid development. First, the province's relations with various countries and regions of the world are increasingly broadening. In the past, we focused on Hong Kong, Macao, Japan, and Southeast Asia when conducting foreign trade and cooperation. Now, in addition to expanding the economic and trading relations with these countries and regions, we have further expanded cooperation with Europe and America, and opened up markets in the Middle East and Australia. Second, the spheres of foreign cooperation were increasingly broadened, utilization of foreign capital increased, and the projects with UN assistance and World Bank loans developed. In the past, we focused cooperation on the light, textile, and chemical industries, but now cooperation has been extended to agriculture, animal husbandry, fish breeding, building of tourist and service facilities, and development of resources. Third, measures of cooperation became all the more flexible and varied. The past compensation trade and processing and assembling industry with materials and specifications provided by foreign firms have been expanded to include development of China-foreign joint ventures or cooperative enterprises. In our imports, the emphasis has been shifted from ordinary equipment to technology. Last year, we signed contracts with foreign firms on 39 joint venture and cooperative production projects. Fourth, foreign trade progressed steadily and the volume of export increased each year. Compared with the same period last year, the volume of export increased by 48.5 percent in the first quarter for this year. Fifth, the environment and conditions for investment improved gradually. Construction of the economic and technical development zones in Qingdao and Yantai cities has begun; expansion of the Qianwan Harbor in Qingdao and the Xigangchi in Yantai has progressed smoothly; expansion of Qingdao's Liuting Airport, which is planned to accommodate large passenger planes has been accelerated; and the various infrastructure of Weihai and Longkou harbors, which were opened recently, have been built assiduously.

CSO: 4006/737

FOREIGN TRADE AND INVESTMENT

SHENZHEN OPENS NEW ADVANCED TECHNOLOGY EXHIBITION CENTER

HK240851 Beijing ZHONGGUO XINWEN SHE in Chinese 1137 GMT 20 Jun 85

[Text] Guangzhou, 20 Jun (ZHONGGUO XINWEN SHE)--on 15 June, an international display and sales center for advanced technologies and products and modern building materials was opened at the Haifengyuan building in Shenzhen. This is the first permanent exhibition and sales center in Shenzhen. It will continually display advanced foreign technologies and products for visits and purchase. In addition, the center will arrange scientific and technological seminars and operational demonstrations so as to promote China's modernization drive.

Companies participating in the exhibitions and products on display will come from the United States, Canada, Europe, Australia, Japan, and Hong Kong. The exhibits include electronics parts, instruments, computers, computer peripheral equipment, scientific apparatus, medical instruments, indoor and outdoor decoration materials and equipment, and so on.

This permanent exhibition center is jointly run by the Japanese Yuancheng [0997 2052] International Corporation (Hong Kong) and the Shenzhen City Scientific Instrument Import and Export Corporation. It has the help and support of the Chinese Scientific and Technological Development Department and the Chinese Architectural and Building Materials Science Society. At the opening session, more than 1,000 exhibits provided by more than 40 companies were on display. Some exhibits are new products.

The Japanese company signed a \$150 million investment contract in Guangzhou earlier this year to build a 68-story international trade center. After the completion of this building, the company will make it a permanent exhibition center for displaying and selling advanced technologies and products in China.

CSO: 4006/737



## FOREIGN TRADE AND INVESTMENT

### THEORETICAL ISSUES IN STRUCTURAL REFORM OF FOREIGN TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 85 pp 8-11

[Article by Qiu Demin [6726 1795 3046]: "Several Theoretical Questions Involved in the Reform of the Administrative System for China's Foreign Trade"]

[Text]

#### I. What the Administrative System for Foreign Trade Involves

China's foreign trade is governed by the socialist system of planned economy, and its administrative structure is a component of the system for managing the national economy that in essence is linked to the aspects of socialist productive relationships and of the superstructure that relate to foreign trade. These aspects may be classified into two parts: state administration, and enterprise operational management of foreign trade. The former involves the state's guiding principles, policies, decrees and developmental strategy for foreign trade. The latter aspect refers to the activities of foreign trade enterprises after the state "unfettered" and transferred authority to these entities. Enterprises are to uphold the general policy of centralized control over foreign affairs, follow the state's general principles and policies concerning foreign trade and China's foreign trade system and, within the limits established by the state, independently engage in import and export operations, practice independent accounting, bear full responsibility for all profits and losses and give full play to their own initiative and creativity.

The fundamental task of the reform of the foreign trade administrative system is to follow the laws and characteristics of the workings of the foreign trade economy and to find a scientific form of foreign trade management through the integration of administrative control and enterprise management; to resolve the problems of making the policy-making, regulatory, dynamic-motivational, service, and organizational systems and the relations among these systems more scientific and rational; and to properly coordinate the centralization of control over foreign affairs and the mobilization of initiative in all quarters. As we summarize our experience, we note a salient point, namely, that only by resolving the problems of coordinating and integrating state control over and enterprise management of foreign trade can we establish our own system for administering foreign trade. And the key to resolving these

problems lies in linking responsibility, authority and rewards and in setting responsibility and determining rewards according to authority. If we ignore any one of these and focus only on the issue of authority, we will create either overstifling control or chaos.

## II. The Guiding Ideology of the Reform of the Foreign Trade Administrative System

The guiding ideology of the reform of the foreign trade administrative system sets the theoretical guidelines for this reform. But Chinese economic theorists disagree on which ideology to choose for the reform, and in general their views may be classified into four types: advocacy of state monopoly; of centralized control over foreign affairs; of unified planning, policy and approach to foreign affairs, namely, the "three unities"; and of the theory of international value. Although each of these views provides some theoretical guidance, none of them fully and accurately meets the objective needs of the reform that must be met if an approach is to become the guiding ideology of the reform; otherwise that approach would have no significant guidance to offer.

The state monopoly approach involves the problem of the nature of state ownership, as the latter relates to foreign trade, but does not deal with the form by which we should manage that trade, which is what the foreign trade administrative system is all about, and thus at the very least is incomplete as a guiding ideology for the reform of that system. For foreign trade is a form of international commodity exchange, and "the depth, breadth and form of that exchange are determined by the growth and structure of production." Although China treats foreign trade within the realm of state ownership, she has a relatively low level of state ownership at this stage due to her low productivity, and thus there are many different kinds of elements and managerial forms in her socialist planned economy, and she retains commodity production and exchange. Thus the state cannot fully and directly manage all of China's foreign trade, and we have had to grant departments, regions and enterprises independent operational authority within limits set by the state. This multilevel, multiform managerial system, which is the product of our socialist economic structure, objectively requires a form of management that is suited to the system's mechanism of activity, and the state monopoly approach by no means provides that managerial form.

Then what about centralized control over foreign affairs? This approach comprises one of the basic theoretical principles and managerial methods that we must adopt in our foreign economic and trade relations but does not provide all of those principles, and still less does it constitute our only managerial method. In the last 30-odd years, we have consistently adhered to the principle of centralized control over foreign affairs, and if we were base the guiding ideology of our reform on this principle alone, the reform would lack a specific focus, so what need would there be for such a reform? Similarly, "the three unities" approach, though a form of foreign trade management belonging to the realm of the superstructure, still does not meet the needs of the reform in terms of the integration of centralized control and dispersed management and in fact shows no essential difference from the ideology of

centralized control over foreign affairs. The theory of international value, on the other hand, is Marx's theoretical summarization of the laws of the international division of labor and commodity exchange but provides no basic principles regarding the organizational forms and managerial systems that countries should adopt when participating in international commodity exchange. We have no objection to using the theory as the theoretical basis for international trade, but the usefulness of the theory as the foundation for reform of a country's system of managing foreign trade is moot, inasmuch as international trade and the foreign trade administrative system are entirely different concepts. The theory of international value describes the laws of the development of international production and commodity exchange, whereas reform of a country's foreign trade system requires a theoretical basis outlining the forms of organization and management that the country needs to adopt in developing foreign trade. The former issue obtains in the relationship between international production and economy, whereas the latter issue relates to a given country's productivity and socioeconomic system. Thus the case for using the theory of international value as the guiding ideology of the reform of China's foreign trade administration is not very compelling.

What, then, should the guiding ideology of our foreign trade reform be? In accordance with China's socioeconomic relationships and actual status of foreign trade, that ideology can be expressed as follows: upholding the principle of a planned commodity economy based on public ownership, strengthening centralized control in foreign relations, mobilizing the initiative of all quarters, expanding exports and increasing foreign-exchange and profit earnings. Here, upholding the principle of a planned commodity economy based on public ownership, strengthening centralized control in foreign relations and mobilizing the initiative of all quarters comprise our guiding ideology and measures, whereas the expansion of exports and increasing foreign exchange and profit earnings represent our goals.

The principle of a planned commodity economy based on public ownership was devised by the CPC Central Committee in accordance with the fundamental Marxist theories of socioeconomic development and through a conscientious summarization of both the positive and negative experiences and lessons China has obtained in economic development; it is the key to the reform of China's foreign trade system, yet represents the general principles that must be upheld in the reform of the entire economic administrative system. Thus we must analyze this principle in conjunction with the special characteristics of economic activity in foreign trade. As everyone knows, most foreign trade exchange takes place on the international market, and the law of international value plays a decisive role in this exchange, especially now, when control of each country's foreign trade is rapidly being concentrated, international monopolistic organizations are growing steadily larger, state interference is mounting, protectionism is becoming rampant, competition in the international market is extremely intense and currency exchange rates change quickly. Under these conditions, only by strengthening centralized management and control of foreign affairs can we break the international monopoly of capitalism and stand up to fierce competition on the international market, only by mobilizing the initiative of all quarters can we increase the supply of goods for export and improve our competitiveness in various ways, and only by integrating centralized control and mobilization of everyone's initiative can we seek to

survive and develop in the intense competition of the capitalist world market and create a new state of affairs in our foreign trade. Thus the establishment of an administrative system that facilitates both centralization of control and mobilization of initiative has become a major task in foreign trade reform and is therefore reflected in the guiding ideology of that reform.

Why should the expansion of exports and of foreign exchange and profit earnings be a part of the guiding ideology of the reform? This inclusion is determined by the basic economic laws of socialism. Our ultimate objective in expanding foreign trade is to satisfy our society's growing material and cultural needs. Thus all of our foreign trade operations must focus on improving economic results and aim directly at increasing exports and earnings of both foreign exchange and profits. Our experience over the past several years demonstrates that proper direction can be maintained in foreign trade reform only when we make increases in exports, profits and foreign exchange the starting and ending points of that reform.

### III. Several Types of Contradictions in Foreign Trade Reform

The reform of China's foreign trade administrative system involves many complicated contradictions, such as between control and flexibility, authority and responsibility, industry and trade, production and marketing, profits and losses, foreign exchange and profit earnings, foreign and domestic aspects, higher and lower levels, foreign and domestic sales and the like. Of these, the major contradictions are between control and flexibility, authority and responsibility and industry and trade, and a proper understanding and handling of these contradictions is an important ideological prerequisite in the reform of foreign trade administration.

1. The contradiction between control and flexibility is a fundamental contradiction in economic administration, which includes the foreign trade structure. It is strongly manifested, in fact, in the contradiction between centralized state control and flexible enterprise management that exists in economic relationships, is reflected in the realm of foreign trade and, in certain respects, may be said to be an abstract epitomization of the contradiction between centralizing control of foreign affairs and mobilizing the initiative of all quarters. Enterprises engage in production and management under the guidance of the state's plans and policies, and thus in general, control plays the leading role, while flexibility occupies a subordinate position, and flexibility lays the groundwork for control, whereas control provides a guarantee for flexibility. If control is weak, flexibility will turn to chaos, while too much control can change flexibility into rigidity. The boundaries between flexibility, rigidity and chaos should be determined in accordance with the needs of socialist economic development and of improving economic results. Here we should draw a distinction between flexibility and chaos. "Flexibility" means initiative and creativity that accord with the general interests of the country, whereas "chaos" describes a situation of selfish departmentalism and anarchy in which every man is in it for himself, involves much blind behavior and has nothing in common with the initiative we hope to mobilize.

The key to properly handling the contradiction between control and flexibility lies in our ability to effect the idea of "responsibility" and to define the notion of "rewards" so that enterprises are both subjected to pressure and given impetus and so that we can generate the vitality needed to meet all challenges. To achieve these objectives, we must first liberate our thinking, continue to eradicate leftist influence and abandon the belief that foreign trade is unique. Second, we must seek to accelerate the reform of foreign trade administration by integrating theory and practice, by conscientiously summarizing our experience in this reform over the past few years and by using the conclusions obtained thereby to guide future reform. Third, we must draw a distinction in the reform between the policies of invigorating the domestic economy and of centralizing control over foreign affairs, properly handle the relationship between these policies, and correct the tendency to treat the policy of control with respect to foreign affairs as a refutation of the policy of invigoration in connection with the domestic economy. Fourth, we must reform the foreign trade planning system, expand enterprise planning and managerial authority, reform the foreign trade financial system and implement a system of responsibility for profits and losses.

2. The contradiction between authority and responsibility. An important task of foreign trade reform is to properly handle the relationship between authority and responsibility; integrate authority, responsibility and rewards; and resolve the problems of generating pressure, impetus and vitality for departments, localities and foreign trade enterprises. If we merely grant authority and fail to fix responsibilities, the reform will never produce good economic results.

In the relationship between authority and responsibility, the former forms the precondition, while the latter provides the foundation. Responsibility will come to naught if it exists without authority, whereas in the absence of responsibility, authority will be abused. Thus we must match these two elements and fix responsibility according to authority and rewards according to responsibility. When a person has a certain amount of authority, he should be assigned a corresponding amount of responsibility, and when he has a given amount of responsibility, he should be accorded a similar amount of authority. Responsibility, authority and rewards should be linked, and we should have managers take responsibility for profits and losses.

Experience has shown that, to resolve the contradiction between responsibility, authority and rewards, we must begin with a reform of the foreign trade financial system and implement a system of responsibility for profits and losses. To this end, we should, in accordance with varying local and enterprise conditions, adopt measures to increase profits, reduce losses, permit profit retainment, provide incentive rewards and fix responsibility by contract.

3. The contradiction between industry and trade, a reflection on trade of the contradiction between production and marketing, is an inevitable result of the development of social division of labor. Marx's theory of capital circulation tells us that industrial capital goes through three stages, in which it takes on three different forms (functions): money capital, production capital and commercial capital. "Merchant capital will emerge in pure form following the

development of social division of labor, which is to say that that form will separate from and exist independently of the actual functions described above." "Commodity capital functions through the medium of merchant activities, that is, merchants' buying and selling, which come to form a special type of operation that is separate from production capital and that thus exists independently." Therefore, commercial capital is a "specialized activity," is not a "subsidiary function performed by producers," ties up less capital as money capital in the realm of circulation, directly increases the amount of capital employed in production" [as published] and "raises the productive efficiency and promotes accumulation of industrial capital." Thus we see that the separation of industry and commerce (trade) is a reflection of social progress and that the specialization, in accordance with social division of labor, of production and management in industry and trade is an objective requirement of and an inevitable trend in the development of socialized mass production. Therefore, we should handle the relationship between industry and trade in accordance with the principles of specialized division and coordination of labor.

The history of the development of international trade and China's own experience in foreign trade demonstrate that there are a variety of ways and forms by which sales are used to set production levels and by which production and sales are linked. For example, some people have established economic organizations that combine industry and trade, some companies produce to order and turn over their export goods to foreign trade enterprises, and some companies employ rapid production changeover, in which design, technology and equipment are changed in response to market demand. In determining which approach we should adopt, we should proceed from practical reality, take all conditions and objective needs into consideration and by all means avoid forcing all operations to become industrial-trade combines.

It must be pointed out that the integration of industry and trade is an important policy in the development of China's foreign trade and must resolutely be carried out. Continued divorce of industry and trade would severely impede development of our foreign trade work. The key problem here is that we must have a full and correct understanding of the issue and avoid going to extremes. This integration is multifaceted and can be achieved in various ways. We should treat the relationship between industry and trade differently according to the varying importance of and market conditions for given products. At present, we can adopt three different approaches. The first, which would be for goods that are in great demand on the international market but are hard to sell domestically, would involve commissioning foreign trade enterprises to handle exports of such products and having the producer enterprise bear all responsibility for profits and losses. In the second approach, for goods that are needed both at home and abroad, foreign trade enterprises would continue to procure export commodities according to plan and bear all risks and all responsibility for profits and losses. In the third approach, for goods that are relatively difficult to sell domestically but which enjoy some demand abroad, foreign trade and producer enterprises would work together to handle exports and would share risks and responsibility for profits and losses. For the present, the second of these three approaches,

planned foreign trade procurement, should continue to predominate, but in the future, with the development of production and steady improvement in economic results, the first, the export agency system, should gradually form the major link between industry and trade.

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CSO: 4006/568

## FOREIGN TRADE AND INVESTMENT

### APPROACHES TO EXPANDING EXPORTS ANALYZED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 1, 5 Jan 85 pp 17-20

[Article by Qian Zongqi [6929 1350 6386]: "Expanding Export Trade and Improving Economic Results: Special Policies and Flexible Measures"]

[Text] How can we improve economic results in foreign trade? There are three types of relationships that must properly be handled.

#### I. The Relationship between Profit and Foreign Exchange Earnings

The centralization of control over foreign trade and the establishment of national cost standards have proved remarkably effective in reducing losses, increasing profits and improving economic results. Nevertheless, limitations on exporting commodities that suffer heavy losses or that exceed approved cost standards have impeded expansion of our export trade, thereby exacerbating the contradiction between profit and foreign exchange earnings.

For a long time, China emphasized completion of her plans for exports and foreign exchange earnings, paid no attention to the levels of the costs, profits and losses involved in producing export commodities, and stressed earnings of foreign exchange over those of profits. Sometimes we totally ignored costs and took losses on our exports in order to increase foreign exchange earnings. In one respect, we were attempting to meet the nation's need for foreign exchange and thus had to absorb some losses in exports so as to pay for some of our imports. Yet on the other hand we lacked full understanding of the nature and function of socialism with respect to foreign trade, the ideology of the provision system had not been eradicated and people were guided purely by the notion of quotas, in which they paid attention only to whether or not their quotas had been met and ignored the matter of how efficient they were in their operations. All we had to do was to increase foreign exchange earnings, and we ignored the exchange balance for Renminbi. To foreign trade, socialism assigns the functions of exchanging things a country has for those it lacks, of readjusting surplus and dearth and of satisfying the material needs of social production and development and the tasks of economizing on social labor, increasing value, and accumulating funds for the state. These functions and tasks must not be overemphasized at the expense of each other, cannot be separated and should not be treated as



contradictory. Instead, we should seek to harmonize the two. Thus in our trade activities, we must earn foreign exchange through our operations and profits through our finances. "In commerce, we must put our finances in order"--this is a summarization of China's historical experience in trade, and socialism also demands a proper ordering of finances in foreign trade. In both import and export operations, we must do a proper accounting before we make any deal. That is, we must "compute then act." We must not conclude the deal and then do our accounting, which is "acting then computing." In much of our business in the past, we "acted then computed," which caused many unnecessary losses and provided us with a profound lesson. Now that national cost standards have been effected, costs and profits are carefully computed in almost every transaction, thereby providing a major guarantee that losses can be reduced and profits increased.

Nevertheless, the overly rigid controls on export cost accounting have made some operations impossible and thus have had a negative effect on export trade. For example, some industrial products cannot be exported due to losses and thus have been withdrawn from foreign markets. There is a distinction between "true losses" and "false losses" for these goods. Those goods that suffer heavy, true losses should be subjected to readjustment, whereas restrictions on those exports that show "false losses" are harmful to us. For competition in the international market is intense, and "it is hard to break in but easy to withdraw," so if we want to break back into the market, our costs will be one or even several times higher. How should we handle this contradiction? We should adhere to the principle of placing equal emphasis on both profit and foreign exchange earnings, seek both to expand export trade and to improve economic results, and stress both foreign exchange and Renminbi. Here, however, our efforts are conditioned by limitations on the state's financial capacity, and thus we must undertake the following.

1. We must fully honor rational policy limits: The limits for profit earnings should be the amount of foreign exchange that is absolutely necessary for the four modernizations and the people's livelihood, and the limits for foreign exchange earnings should be the state's maximum financial capacity. All foreign trade operations should be conducted within and must not exceed these boundaries, lest we produce financial difficulties for the state or hinder the expansion of foreign trade, both of which would affect the progress of the four modernizations.

2. We must set reliable cost standards: We must proceed in a practical fashion in setting export cost standards, seek both to reduce losses and earn profits and to take changes in the international market and the possibilities of earning foreign exchange into consideration, and make these standards both progressive and reliable.

3. We must employ appropriate managerial measures: There are three major factors that affect export commodity costs: export prices, purchase costs and circulation expenses. There is potential to be tapped in all of these areas. We should adopt various appropriate managerial measures, based on procurement and marketing conditions for different commodities, to reduce export costs. For example, in the area of export prices, we must change the dominant managerial approach that places emphasis purely on "cheapness" and strive to

earn good prices for our sales. For example, the stainless steel knives sold by the Shanghai Light Industrial Export and Import Co are similar in quality to those produced in Japan, but their original price was 30 percent lower than the latter. That price was later changed, but the product was still accepted by foreign businessmen, sales were maintained and profits thus were increased. In the area of purchase costs, we should change the abnormal situation in which "industry earns big profits, and foreign trade companies suffer huge losses," get industrial and foreign trade units to talk things over and work together, and have industry give up some of its profits so as to reduce ex-factory prices. For example, the producer price of the MSG marketed by the Shanghai Foodstuffs Export and Import Co was reduced by more than 30 percent due to close cooperation between industrial and foreign trade units, and this reduction enabled foreign trade enterprises to continue to expand exports within approved standards. And in the area of circulation expenses, we must undertake concrete analysis of expenditures at each link, strive to economize, ensure that export costs remain reasonable when expenses are apportioned among commodities and thus prevent abnormally high and low and sudden rises and drops in costs.

4. We must adopt appropriately flexible measures: Because operational conditions vary for different commodities, we should, while adhering to approved standards, adopt flexible measures in managing some commodities. These measures should include the following.

(a) Profits and losses can be adjusted by enterprises themselves. That is, foreign trade enterprises may still export some necessary commodities that produce losses so long as those enterprises retain unified prices and the costs of those commodities do not overly exceed approved standards. Losses and profits can then be adjusted within general categories of goods (if the export cost standard for the goods in question were fixed specifically for those goods or for subcategories of goods) or between general categories of goods (if the standards are fixed according to such categories).

(b) We should provide favorable financial treatment. Extra- or supraplan sales of some "false loss" commodities that play a major role as exports and that cannot be handled through the above measure should be accorded favorable treatment in the form of tax reductions or exemptions or even subsidies so that we continue to expand our export trade.

(c) We should provide two kinds of incentive awards. The amounts by which foreign trade enterprises reduce losses (or increase profits) should be used to cover some of the losses incurred in supraplan commodity exports, but the enterprises should still be entitled to a return of their proper share of the funds so used. Rewards should also be provided for supraplan export sales and earnings of foreign exchange so as to encourage expansion of exports.

## II. The Relationship Between Selecting the Best and Choosing the Cheapest

The establishment of national cost standards was designed to induce foreign trade enterprises to choose the best products and to improve economic results. Yet, restricted by those standards, some port and foreign trade enterprises

have opted to purchase as many low-cost and low export price commodities as possible, which has given rise to operations based on cheap-price selectivity.

To increase economic results in foreign trade, we must practice operational selectivity, which includes being selective with respect to product, region, customer and price. Here, low prices give products greater competitiveness and comprise one part of operational selectivity. Yet "cheapness" is only one factor and is not the whole story in determining "the best." Thus "cheap" should not be allowed to replace "best," and "selecting the best" should not be transformed into "choosing the cheapest." The basic component of product selectivity, for example, should be quality, which plays major role in export competitiveness. Only superior quality can attract customers, expand the market, increase sales prices and improve profits. Price selectivity, on the other hand, has two meanings, getting the best export price and purchasing goods with the lowest costs. If we focus only on "cheapness," we might obtain one-shot benefits, but in the long run we will not achieve our objective of reducing costs and increasing profits. For a long time, China's foreign trade work has been "dominated by cheapness," and thus we have not obtained good economic results. In a survey conducted at the end of 1982 of the competitiveness of China, Japan, Hong Kong, Taiwan Province, Singapore and South Korea in the European market, China placed first only in the area of "cheap prices," fifth in terms of "receptivity to small-lot orders," and last in terms of "product quality," "new product development," "design and packaging" and seven other areas. While this rating constitutes an indictment of China's foreign trade work, it also sounds an alarm for our export operations. To expand exports and increase economic results, we must strengthen the competitiveness of our exports, and to do that we must proceed from many areas. Competitors in the international market not only continue to employ price measures, but rely even more on nonprice measures, such as product quality, design (including style), packaging design, after-sale service, payment conditions, fast delivery and the like. Thus to increase our competitiveness and build foreign markets, we must not only stress "cheapness" but, even more importantly, underscore the importance of "quality," "newness" and "speed."

Good product quality is the fundamental requirement for success in the competition of the international market. Many products in international trade are developing in the directions of greater quality, higher grade, multifunctionality, convenience and greater technology, and the traditional classifications of labor-intensive, capital-intensive and technology-intensive goods are showing signs of gradual coalescence. Yet many Chinese export commodities fall short of advanced international levels and thus do not obtain good prices, which is not conducive to the improvement of economic results in our foreign trade work. Such Chinese goods as clothing, shoes, hats, ceramic utensils, bicycles and sewing machines earn much lower export prices than their foreign counterparts. For example, in 1983 our textile exports to the United States earned prices that were on average 46 percent lower than those of Hong Kong. Thus we urgently need to increase the quality of our export commodities, improve packaging design, develop more variety in product design and color and rapidly upgrade our exports.

The key here lies in the level of our production technology. For example, for industrial finished goods, the higher the levels of processing and refinement, the better the selling price and the greater the value added. Yet the opposite situation has arisen for some Chinese goods. For example, the economic gains from exports of printed cotton cloth are not as good as those for colored cloth, which are lower still than those for gray cloth, so that the latter accounts for more than 60 percent of our cotton cloth exports. This abnormal situation must be changed as soon as possible, and foreign trade departments should devise all sorts of measures to support and promote the technological transformation of industry, raise the quality and grade of our exports, increase the level of processing and refinement of our products, and as much as possible reduce exports of low- and medium-grade commodities, increase sales of high-grade goods, reduce exports of raw materials and semifinished goods, increase sales of finished products, reduce exports of crudely finished goods and increase sales of highly finished products.

### III. The Relationship Between Innovation and Improvement

The fundamental link in improving the economic results of foreign trade is to readjust our import [as published] mix and develop new products in export trade. Thus arises the question of whether or not we can reduce or abandon exports of traditional products and the problem of the relationship between new product development and old product upgrading, that is, of the relationship between innovation and improvement.

Our export mix has undergone tremendous change since the establishment of the PRC. Between 1953 and 1983, the ratio of primary products in our export trade declined from 79.4 percent to 43.3 percent while that of finished goods rose from 20.6 percent to 56.7 percent. Yet, compared to developed countries, we are still far behind. For example, finished industrial goods accounted for 64 percent of the total value of exports in the United States, 82.8 percent in Japan, 78.5 percent in the FRG, 69 percent in England but only 45.9 percent in China. Moreover, our finished product export mix is more backward: light industrial goods and textiles comprise three-fourths of the total, whereas heavy industrial and chemical products account for only one-fourth. In advanced countries, on the other hand, the mix is reversed. For example, in 1980 machinery and equipment accounted for 40 percent of the total export value of the United States, 54.9 percent of Japan, 44.9 percent of the FRG, 34 percent of England and only 3.7 percent of China. The ratios of machinery and equipment exports of even Hong Kong, South Korea and Singapore were several times higher than China's.

A new world technological revolution is on the rise and is producing an impact on international trade, which in terms of product mix is reflected as a steady increase in the ratio of finished goods and the continuous emergence of new products (such as nuclear raw materials and equipment, computer equipment, optical fibers, automated instruments and equipment, robotics, ceramics, rocketry and space technology, submarines, all sorts of new domestic appliances, audio equipment, televisions, video recorders and the like). Confronted with this stern challenge, we must rapidly readjust our export mix. The development of new products will form an important part of this work. Yet,

for the following reasons, we must by no means overlook or reduce exports of traditional products.

First, export mix is determined by the structure of domestic industry and, of course, exerts in turn an important effect on the latter. Readjustment of the structure of industry is conditioned by many factors, such as the levels of development in financial strength, material wealth, science, technology and education. Thus readjustment inevitably involves a process that requires a certain amount of time, during which traditional products will still provide most of the material basis for export trade.

Second, export mix is also conditioned by international market demand. Developed countries are shifting toward technology- and knowledge-intensive industry, and the national industries of most developing countries are still at the initial stage of development, so much of the international market retains much capacity for traditional Chinese goods. Thus we should make full use of this opportunity, and, while concentrating human, material and financial resources for the accelerated development of new industry, we should place great emphasis on the technological transformation and rejuvenation of traditional industry. China's textile, light and machine-building sectors have not yet become "sunset industries." So as we continue to upgrade old products and strengthen the development of new ones, we should make vigorous efforts to expand exports of traditional goods. China's traditional exports include agricultural, sideline and light industrial products, minerals and textiles as well as simple mechanical and electrical goods whose production is relatively labor intensive. Many of China's agricultural produce, sideline industrial goods and minerals enjoy advantages and play decisive roles in the international market, so if we organize exports of these goods we can obtain better micro- and macroeconomic results. We should fully exploit these advantages, seize our share of the international market for these goods and thereby obtain better economic returns. Many of our light industrial products and textiles enjoy similar advantages; most are consumer necessities and thus the capacity of the international market for these goods is relatively stable, so they are not affected very much by the cyclical economic crises of capitalism. China, however, accounts for only a very small share of world trade in these goods, and thus enjoys much potential for their development. The crux of the issue lies in the marketability of the quality, variety, colors, design and style of our products. China also enjoys certain potential advantages in her simple mechanical and electrical products. Developed countries are already reducing or terminating production of these goods due to high labor costs, so China is exploiting her potential strengths in this area so as to expand her exports. Thus we can expect that traditional goods will continue to comprise the bulk of our exports in the 1980s, but that their relative importance will gradually decline so that by the 1990s heavy industrial goods and chemicals (especially new products) will form a markedly larger share of our total exports and reach a considerable volume. Thus by that time, the economic results of our foreign trade will have greatly improved.

12431

CSO: 4006/556

FOREIGN TRADE AND INVESTMENT

INSPECTORS SEIZE SHODDY IMPORTED GOODS

OW131826 Beijing XINHUA in English 1628 GMT 13 Jun 85

[Text] Beijing, June 13 (XINHUA)--Inspectors seized 4,683 batches of imported goods in the first quarter of this year for falling short of contracted quality, quantity and technical norms, the State Administration of Import and Export Inspection told XINHUA today.

This was 12 percent of all goods inspected.

Last year, 15 percent of the goods inspected was found short of the contracted terms.

A senior administration official said compensation would not cover losses.

Pipe hydraulic testing machines bought by the Anshan Iron and Steel Works from a Japanese firm for 380 million yen were badly welded, finished and packed.

Fifty tons of Japanese dampproof cellophane bought by the Light Industrial Products Import-Export Corporation was warped and marked beyond use.

The National Metals and Minerals Import-Export Corporation's Hainan Branch ordered 2,893 tons of Hong Kong metal rods and received 2,259 tons.

The Fuzhou Huaifu Company bought 19 nylon zip fastener-making machines for 210,000 U.S. dollars. The line worked badly even after the Japanese seller replaced 200 parts on the 17 rusted, obsolete and shaky machines.

Staple fiber in 1,000 tons of Finnish artificial cotton stopped machines twice in Wuxi.

The Wuhan Iron and Steel Works spent two million yuan on parts for Swiss trucks bought for 5.63 million Swiss francs whose fuel, radiation, unloading and lifting systems leaked oil.

China, said the official, must be on its guard if it was not to be fobbed off with old and shoddy goods, and the cavalier attitude of some Chinese organizations to formulating contracts and filing claims only encouraged the unscrupulous.

## FOREIGN TRADE AND INVESTMENT

### YINGKOU SCORES RESULTS WITH IMPORTED TECHNOLOGY

OW272223 Beijing XINHUA in English 1856 GMT 27 Jun 85

[Text] Shenyang, June 27 (XINHUA)--A small paper factory in coastal Yingkou City, Northeast China, was confronted with overstocked products and serious losses because of poor quality, and it seemed the solution was to close.

But it found another solution: importing a rice straw board production line from Britain last year.

It is the first producer of this building material in China. Its annual production of 500,000 square meters is short of demand.

This is one of the 102 projects in Yingkou using foreign funds and technology to overhaul enterprises.

Local officials say Yingkou has imported 643 machines and 52.85 million U.S. dollars of foreign funds since 1979.

Progress became so marked that the city used as much foreign capital in 1984 as in the previous five years.

Economic returns on the resultant technical transformation are satisfactory, local officials report.

Eight major textile enterprises in the city have spent 20 million U.S. dollars of foreign funds on retooling in the past five years. The overhaul has yielded 100 million yuan in taxes and profits and earned 80 million U.S. dollars of foreign exchange.

Mayor Xu Shilian says Yingkou's foreign trade has a bright future.

The city, covering 4,700 square kilometers, has verified reserves of 27 minerals, including 2.6 billion tons of giobertite, more than anywhere else in the world, and six million tons of talc, ranking first in China.

With a population of 1.9 million, the city has 1,053 enterprises, which produce 2.5 billion yuan a year, says Mayor Xu.

He says that Yingkou plans to import 121 technological projects and 40 million U.S. dollars of foreign funds this year.

FOREIGN TRADE AND INVESTMENT

STATE COUNCIL APPROVES REGULATIONS ON ENTERPRISE NAME

OW181451 Beijing XINHUA Domestic Service in Chinese 0833 GMT 15 Jun 85

[Text] Beijing, 15 Jun (XINHUA)--To protect the rights and interests of enterprises and to maintain social and economic order, the State Council approved "the Provisional Regulations on Name Registration by Commercial and Industrial Enterprises" formulated by the State Administration for Industry and Commerce on 23 May.

The "regulations" say: The organ of the administration for Industry and Commerce approves the name of an enterprise when it applies for registration. After registration approval is given, the enterprise enjoys the special rights for the name within the limit of the regulations and the protection of state law. An enterprise is permitted to use only one name. In cases where the organ of the administration for Industry and Commerce approves the use of two names because of special reasons, the enterprise cannot repeat registration of its capital.

The "regulations" stress that the enterprise is not allowed to use the following names: those names detrimental to the interests of the state, the society, or the public; names of foreign countries (areas); names of international organizations; names formed by foreign words or formed by Chinese phonetic alphabets; names formed by numbers. When an enterprise applies for registration, it should place the city or county name of its locality before the enterprise name. The signboard of a commercial enterprise need not display the locality name.

The "regulations" say that approval of enterprise name falls under the control of different levels of the organ of the Administration Bureau of Industry and Commerce. The city and county administration bureau of industry and commerce will approve those enterprise names with a city and county name. An enterprise of the same trade within the same city limits and same county is not allowed to use a name already used by another enterprise. The administration bureau for industry and commerce of the city and county shall report to the administration bureau for industry and commerce of the province and autonomous region for approval of the application by the enterprise which, instead of using the city and county name, chooses to use the province and autonomous name; within the limit of the province and autonomous region, an enterprise in the same trade is not allowed to use the name already used by another



enterprise. Those who use "zhongguo" or "zhonghua" for their enterprise should seek approval by the State Administration for Industry and Commerce; within the boundary of the nation, an enterprise in the same trade is not allowed to use the name already used by another enterprise. Except those companies whose business covers all of China, enterprises are not allowed to use "zhongguo" or "zhonghua" for their enterprise.

The "regulations" stipulate that the enterprise name is transferable. When making a transfer, the transferer and the transferee shall sign a written transfer agreement and apply to the organ of the administration of the industry and commerce for approval in accordance with registration procedures for the industrial and commercial enterprises.

Enterprises from foreign countries (areas) should seek approval from the State Administration for Industry and Commerce for name registration in China. In case disputes arise out of the same enterprise name, the enterprise that applies earlier will get the priority.

An enterprise that uses an unauthorized name or alters the approved name at will will be dealt with according to regulations on industrial and commercial administration by the organ of the Administration for Industry and Commerce.

CSO: 4006/737

18 July 1985

## FOREIGN TRADE AND INVESTMENT

## BRIEFS

GANSU PROVINCE TO OPEN MOUNTAINS TO TOURISM--Lanzhou, June 27 (XINHUA)--Gansu Province will officially open the Qilian Mountains to foreign tourists and climbers in July, a provincial official said here today. The 5,548-meter unconquered peak of the Qilian Mountains will suit seasoned amateur climbers, the official said. Tourists can view the grassland, forest and lake and enjoy the natural beauty of unique glacier and tundra from the lower slopes. They can also see the life and customs of the minority people, the official said. The Provincial Physical Culture and Sports Commission and Tourist Bureau have drawn up itineraries and will provide tourist guides and equipment. [Text] [Beijing XINHUA in English 1458 GMT 27 Jun 85 OW]

JOINT VENTURES TO INCREASE EXPORTS--Shanghai, June 26 (XINHUA)--Shanghai's 60 Sino-foreign joint venture businesses are to expand the number of products they make for export, a municipal foreign trade official said today. Five new joint ventures will add this year motorcycles, toys, rubber shoes, traveling bags and shoes to the present list of exports, which include textile products, lifts, flavouring agent and containers. The official, from the Municipal Commission for Foreign Economic Relations and Trade, said Shanghai encouraged most of its joint ventures to produce exports. This was because these businesses, with imported up-to-date equipment and management, had a greater ability to compete on international markets. The 60 joint ventures set up so far produce machinery, electronics, textiles, light industrial products, foodstuffs, medicine, building materials, telecommunications equipment and oil-drilling platforms. Under the contracts signed between their Chinese and foreign shareholders, many of their products are to be exported. The Shanghai Lift Works, attached to the China-Schindler Elevator Company, has exported more than 500 lifts to Europe and Southeast Asia since 1982. Shanghai Cosfra Ltd, a Sino-American joint venture, has exported flavouring agent to Europe and America since it began operation in 1983. Some of the products manufactured by the joint ventures are also sold on domestic markets. [Text] [Beijing XINHUA in English 1830 GMT 26 Jun 85 OW]

NEW TIANJIN HOTEL--The (Shengli) Hotel, Tianjin Municipality's first hotel geared to the needs of the economic and technological development zone, will be built near the development zone in Tanggu District. A contract on construction of the hotel has been signed with a Hong Kong counterpart. The hotel occupies an area of 30 mu. Its 15-story main building will contain 20,800 square meters of floor space and will have 378 rooms. The hotel will partially open by the end of this year. [Summary] [Tianjin City Service in Mandarin 0030 GMT 6 Jun 85]

CORN EXPORT PROSPECTS--During the inaugural meeting of the National Corn Export Association, Cai Peikang [5591 0160 1660], deputy general manager of the China Grains and Oil General Import and Export Company, talked to reporters about a number of issues relating to expanding corn exports. As a corn exporter, China enjoys a major advantage. The Soviet Union, Japan and Southeast Asia are the world's chief corn importers and account for 60 percent of the world's total corn imports. As they are close to China, which means lower freight costs, they like importing Chinese corn. Nevertheless, we must still analyze the market carefully and adapt to it if our corn is to command better prices. The Chicago commodity market sets the standard for all corn deals in the world, and since it is open to a variety of influences, we must study its trends and make timely moves. Cai Peikang said, "Chinese corn is recognized the world over as a high-quality, high-protein product. We must set long-term strategic goals for this very promising essential export commodity. We must have an overall plan to make sure that the demands of the international market are strictly met at every stage, from production and purchase through storage to transportation. We must not simply purchase whatever is available." He suggested that we draw up uniform standards for corn exports so that they can command a higher price in the international market. [Text] [Beijing GUOJI SHANGBAO in Chinese 16 May 85 p 1] 12581

NEW NEI MONGGOL HOTEL--On 4 June a foundation stone laying ceremony was held for (Zhaojun) Hotel in Hohhot, Nei Monggol, which is Nei Monggol's first enterprise jointly run with Hong Kong. The hotel covers an area of 9,600 square meters, and its major building--a 20-story, 63-meter-high building--will have 21,000 square meters of floor space. The hotel will be jointly financed by the Hohhot City Tourist and Trade Development Corporation and Hong Kong's (Lianda) Industrial Corporation. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 5 Jun 85]

SHANGHAI-HONG KONG JOINT VENTURES--The Shanghai Minhang Joint Development Corporation and the Shanghai Hongqiao Joint Development Corporation, joint ventures between Shanghai and Hong Kong, were inaugurated on 20 June. Major Wang Daohan and Vice Mayor Ni Tianzeng attended the inauguration ceremony. After inauguration, the two corporations will be responsible for developing and operating the new Minhang Industrial Zone and the new Hongqiao Development Zone. [Text] [Shanghai City Service in Mandarin 0100 GMT 21 Jun 85]

CSO: 4006/737

## SPECIAL ECONOMIC ZONES

### SHENZHEN'S LEGAL PROTECTION OF FOREIGN INVESTMENT DISCUSSED

Beijing LIAOWANG [OUTLOOK] in Chinese No 16, 22 Apr 85 pp 181-19

[Article by Sun Benyao [1327 2609 1031]: "Shenzhen Strictly Enforces the Law To Promote Economic Development"]

[Text] During a recent visit to Shenzhen, the reporter was pleased to note that in developing its economy, the municipality has taken great pains to use the legal approach to improve management.

#### I. The Law Is the Best Guarantor

The Shenzhen Special Economic Zone [SEZ] has been attracting foreign investors like a magnet. They are highly interested in our policies to introduce advanced technology, attract foreign funds, and absorb foreign scientific management methods.

However, foreign businessmen are reportedly a little nervous about investing in Shenzhen mainly for fear that there is no legal protection for their interests and that they have no legal recourse when a dispute arises over their economic activities. Before it moved into Shenzhen, a foreign electronics company interested in making kinescope for color TV sets in Shenzhen first photocopied from our overseas publicity literature a list of all the laws and special zone regulations that we have promulgated and asked us to supply it with full legal information. Another company preceded their negotiations for setting up a joint venture with more than 100 legal questions. Zhang Linghan [1728 7227 3352], head of the legal office of the municipal government, said, "We are convinced that comprehensive laws are the best reassurance for foreign investors."

Although China's special economic zones do not yet have a law for every contingency, our efforts over the last few years have resulted in some major laws and regulations. After the approval of the "Guangdong Province Special Economic Zone Regulations" by the standing committee of the National People's Congress in August 1980, the standing committee of the Provincial People's Congress adopted seven sets of SEZ regulations or provisional regulations governing the arrival and departure of personnel, enterprise registration, labor wages, land, factory buildings, economic contracting with a foreign

investor and the importation of foreign technology. In addition, the Shenzhen municipal government has enacted detailed implementation regulations for enterprise registration. Other laws and regulations about to be promulgated in succession concerning foreign and Chinese joint ventures, foreign banking, foreign companies, investing in the SEZ, loan guarantees, corporate bankruptcy and so on. The municipality has put together a book containing these laws and regulations and extensively publicized it through the mass media. After reading the laws and regulations of the zone, some foreign businessmen nodded in approval, saying, "Now that we have laws to follow, we can stop worrying."

Noting that their legitimate laws and interests are clearly spelled out in the SEZ's laws and regulations foreign businessmen have become more confident in investing in Shenzhen, as demonstrated by the 870 projects involving a total of HK\$5.1 billion concluded between the zone and foreign investors last year, up 83 percent from 1983. Of this amount, HK\$ 1.7 billion have already been invested, an increase of 50 percent over 1983. There has been an increase in the number of large projects as well, including 34 valued at HK\$10 million each and producing printing circuit boards, computer-controlled color TV sets, integrated circuits, color printing membrane and plastic film, among other things. All these projects have gone into operation.

## II. "Legal Blindness" Impedes Economic Development

The Shenzhen Restaurant Enterprise Limited placed an order with a Japanese company for HK\$12 million worth of elevators. In examining the contract, the legal department discovered three major defects. First, while the restaurant operator wanted the Japanese to deliver the equipment to the construction site, the contract provided for the equipment to be handed over to the Chinese at the port. Second, there was a discrepancy in the method of payment. The proper procedure is for the paying bank to make the payment with the certificate issued by the Shenzhen authorities verifying that a piece of equipment has been received and is in good condition. According to the contract, however, payment was to be made on the letter of credit issued by the Japanese. Third, the contract named the Shenzhen office of the Sanwa Bank of Japan as guarantor. But under Chinese law, that office is not qualified to act as a guarantor. Only after the legal department pointed out the problems did the two sides revise the contract.

The head of the political research office under the Shenzhen municipal CPC committee, Zhou Huandong [0719 3562 2639], told reporters, "You cannot bring the economy around without understanding objective economic principles. Similarly, you cannot bring it around without understanding the laws. Now more and more of our cadres have become familiar with our comprehensive laws and regulations and can help us in dealing with all kinds of complex economic relations, especially foreign economic relations. In the past, we unwittingly violated the law because we did not know or understand it. As a result, not only was our cooperation with foreign investors adversely affected, but the sovereignty and economic interests of the state were also damaged."

The municipality has taken various steps to equip more and more cadres with legal knowledge: 1. The municipal training center will offer 3- to 4-month

training for managers and specialized cadres engaged in foreign economic activities. These personnel will be partly released from their regular work during training. 2. Special economic zone legal courses will be offered by the cadre rotation training class at the party school under the municipal CPC committee. 3. Departments and agencies will operate specialized courses covering a particular law or set of regulations. 4. Specialized training will also be made available for judicial cadres. Over the past few years, 16 legal classes have been held for a total of 16,200 cadres.

### III. The Rule of Law, Not of Man

We may have the laws, but whether or not we actually follow them depends on the leadership at various levels. Should law prevail over man, or vice versa? Zou Erkang [6760 1422 1660], a member of the standing committee of the municipal CPC committee, said, "In the past, we generally did not take a legalistic approach in running the country, which made the masses think that the ideas of such and such a leader are more important than what the law says. Things should not be like that. What a leader thinks and what the law says do not always coincide. In handling economic disputes, a number of cadres are more used to relying on administrative means and simply 'follow the leader.' Taking a cue from this situation, some merchants also tend to seek out the municipal leaders whenever they have a problem. Today, the municipal leadership is educating the investors to follow our laws, on the one hand, and carefully observes the laws themselves, on the other. A Hong Kong company has contracted to build the Shenzhen Luohu Building. As contractor, it was obliged to pay construction taxes, something which it consistently refused to do despite repeated urgings by the municipal tax bureau. Left with no other recourse, the tax bureau filed suit against the company. The court tried persuasion and education, but to no avail, so it brought the case to trial. At this point, the company wrote to the provincial and municipal leaders asking them to intercede and overrule the court's decision. After they received the letter, the leading provincial and municipal cadres asked the departments concerned to review the case conscientiously. Satisfied that the court had delivered a fair verdict, the leaders decided to uphold it, insisting that the law must be complied with. The company had no alternative but to pay all taxes due.

Besides setting an example in obeying and enforcing the law, the leaders also attach a good deal of importance to the views of legal experts and the legal department. As the company in Shenzhen which has attracted the largest amount of foreign capital and clinched the biggest number of deals with foreigners, the Shenzhen Economic Zone Development Corporation has a legal advisory office to scrutinize every contract. In case a difference of opinion occurs between the leaders and the legal experts, the former consult with the latter at length. The leaders take the laws of the state as their standard and never stubbornly cling to their personal opinions. The company's contracts have been improving steadily in recent years with an appreciable decrease in errors.

#### IV. Enforce the Law Impartially

Law enforcement agencies in Shenzhen have been praised by all quarters for the impartiality with which they handle cases and safeguard the inviolability of the law. Li Zhiguang [2621 1807 0342], head of the economic trial court of the intermediate people's court in Shenzhen, told reporters, "Whether we are dealing with cases in which Chinese are culpable or cases where foreign investors should be held liable, we all act strictly in accordance with the law. In 1983, a Shenzhen company entered into an agreement with a Hong Kong firm to process 160 tons of lead sections [qian xingcai 6884 0992 2624]. Although the contract stipulated that delivery would take place in stages in March and April of the same year, the Shenzhen company failed to meet the deadline. As a result, the Hong Kong firm could not fulfill its commitment to its Philippine partner as scheduled and had to pay compensation. In the subsequent dispute between the Shenzhen and Hong Kong firms, the latter filed suit with the intermediate people's court. After reviewing the case, the court decided that the Shenzhen company was culpable. When the company voluntarily admitted that it had violated the contract, the court mediated an agreement between the two parties under which the Shenzhen company paid HK\$40,000 to the Hong Kong company to cover the latter's losses. Grateful to the court for its impartiality, the Hong Kong company expressed a desire for closer economic cooperation with the zone. Some businessmen even presented the judicial organs with horizontal mirrors with such inscriptions as "fairness and honesty" and "benefit overseas Chinese."

Law enforcement agencies in Shenzhen are equally strict when it comes to dealing with foreign merchants who break the law. A Hong Kong investor and a Shenzhen company cooperatively set up a construction company. In the name of its cooperating partner, the Hong Kong investor violated the Chinese tax code and the SEZ enterprise registration regulations and infringed upon its Chinese partner's interests. The Shenzhen company filed charges with the intermediate people's court. In the end, the Hong Kong investor paid HK\$40,000 in fines, HK\$38,000 in damages to the Shenzhen company, as well as all the taxes that he owed the state.

#### V. The Rule of Law Outside the Court

Besides the court, economic disputes in Shenzhen can be mediated or arbitrated by the municipal industry and commerce bureau and the Shenzhen office of the foreign economic and trade arbitration committee of the Trade Promotion Council. Lawyers can also be asked to mediate. At present 29 joint ventures, cooperative enterprises and wholly owned foreign enterprises retain permanent legal advisers. So do 8 administrative units and state-run enterprises. Together they have provided 600 people with legal consultation services. A gas station was opened as a joint venture between the Shenzhen Petroleum Company and the Hong Kong Chenghe Trading Company. At one point, its volume of business dropped sharply because of a dispute over investments, and both parties asked for arbitration. The arbitration office put together an arbitration panel, on the one hand, and tried to make peace between the two, on the other. Today their basic differences have been resolved and the Hong Kong company has told the Shenzhen Petroleum Company that it was confident

that they could put the gas station on a sound footing. Three measures have also been introduced. First, the amount of capital has been increased to finance the second phase of the project. Second, operations are being computerized to improve management. Third, gas station employees are undergoing training to raise their service standard. To close the gaps in the contract, the two sides have agreed upon a gas station constitution and internal operational regulations. The gas station is improving and its business has doubled.

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CSO: 4006/680



## SPECIAL ECONOMIC ZONES

### OVERVIEW OF SHENZHEN'S FOREIGN CAPITAL IMPORTS IN 1984

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 85 p 17

[Article by Tang Huozhao [0781 3499 3564]: "A Review of Foreign Investment in the Shenzhen Special Economic Zone during 1984"]

[Text] Compared to the excellent performance of 1983, foreign investment in the Shenzhen Special Economic Zone [SEZ] was even greater in volume and broader in scope in 1984. During the year, 885 investment projects were signed with foreign businessmen, totaling HK \$5.1 billion, HK \$1.7 billion of which have already been invested. These figures are equal to 27.5, 28.3 and 37.7 percent of the total number of investment projects, the total amount of investment agreed upon, and the total amount actually invested, respectively, during the 5-year period between 1980 and 1984.

The most salient feature of the work of introducing foreign capital in 1984 was that foreign businessmen had full confidence in investment in Shenzhen and cooperation with enterprises in the zone. Chinese-foreign joint ventures produced 67.8 percent of all investment between 1980 and 1983, 76.7 percent in 1983 and 90.3 percent in 1984, thus showing an increase in their relative importance in investment. Investment in projects involving "the three imports and one supplement" declined from 16.2 percent of all investment between 1980 and 1983, to 11.7 percent in 1983 to only 2 percent in 1984.

The greatest increases occurred in the number of industrial projects and the total amount invested therein. For the year, industrial investment accounted for 76.8 percent of the total number of projects, 35.6 percent of the total amount of investment agreed upon and 35.3 percent of total actual investment. This increase in industrial investment has engendered new changes in the zone's economic structure. First, the ratio of gross industrial output value relative to gross industrial and agricultural output value rose sharply, and industrial output totaled 1.6 billion yuan for the year, an increase of 122.2 percent over 1983, and accounted for 89.1 percent of gross industrial and agricultural output value in 1984. Second, an internationally, "export-oriented" industrial structure basically took shape. Wholly owned foreign enterprises and Chinese-foreign joint ventures accounted for 50 percent of the zone's total industrial output value during 1984, and when the output contributed by the processing and assembling of foreign-supplied materials and components is included, the total reaches 57.8 percent of all industrial

output in the zone, an increase of 5.8 percent over the 1983 level of 52 percent. Third, the zone is now able to produce its own industrial goods. Processing and assembling of foreign-supplied materials and components accounted for only 7.8 percent of total industrial output value, a decline from 15 percent during 1983. And the zone's principal manufactures included color televisions (120,000 produced in 1984), radio-tape recorders (1.08 million), bicycles (22,000) and pocket calculators (1.26 million).

There were also new increases in investment from European and American countries and regions. In the 4 years from 1980 through 1983, European countries and regions accounted for less than 2 percent of the total amount of foreign investment in the zone, but in 1984 the ratio rose to 4 percent, and the ratio for American countries and regions increased from 1.8 percent to 3 percent during the same periods. Five more countries invested in Shenzhen in 1984, and multinationals such as DuPont Corp of the United States, Matsushita Co of Japan, Dunhill Tobacco Co of the United Kingdom and (? Gulf Pacific) Co, Ltd of Australia [Haiwan Taipingyang 3189 3494 1132 1627 3152] came to the zone to engage in talks and make investments. Government leaders of the zone also went to the United States, Canada, Australia, Japan and other regions and countries to conduct investment promotions, talks and discussions so as to broaden the avenues for foreign investment in the zone.

The most important factor contributing to the large influx of foreign capital during 1984 was the completion of a comprehensive system of support facilities for foreign investment. Another 1.5 billion yuan, an increase of 70.4 percent over 1983, were invested in capital construction, consisting largely of municipal government facilities. But most importantly, to introduce and control large amounts of foreign capital, a sweeping reform of the zone's management system was initiated. Enterprises now enjoy independence in accounting and management and authority over production, sales, use of funds, personnel employment, wage adjustment and foreign economic activities. There has been an integrated development of diversified operations based on a single primary activity, and circulation has been invigorated. A new price system incorporating planned, floating and free prices and based largely on the latter has given fuller play to the functions of the market mechanism. The reform of the job-assignment system has effectively mobilized enterprise and worker initiative. And the open recruitment, selective hiring and rational and free movement of workers have made it easier for the zone to introduce and control foreign capital. The basic experience of the Shenzhen SEZ in 1984, then, was as follows. Capital imports were used to promote reform, reform was used to attract investment, and reform enabled Shenzhen's investment environment, which is rooted in comprehensive support facilities and centers on the zone's system of management, to meet the needs associated with the introduction of foreign capital.

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CSO: 4006/568

SPECIAL ECONOMIC ZONES

BRIEFS

SCIENCE & TECHNOLOGY TRADE CORPORATION--The China Science and Technology Trade Development Corporation, a cooperative project among a number of units under the Ministry of Foreign Economic and Trade Relations and the Ministry of Railways, was formally opened in Shenzhen on 15 May. It grew out of the need to put an end to the lack of coordination between scientific research, production, technology and trade; to discover a new approach to integrating technology and trade, industry and trade, the attraction of foreign technology and export, and integrating scientific research and production; and to further develop China's trade in scientific and technical products. Preparations for the construction of the corporation began last September. In the past 6 months, it has been serving the public even while construction was in progress. Today it is well equipped with computer facilities and totally modern office equipment. During the preparatory stage, it has already established contacts with several overseas companies and signed a number of long-term cooperative agreements. In addition, it has provided a variety of services to over 10 clients in China. The corporation is mainly concerned with the importation of advanced scientific and technical products and the vigorous development of scientific and technical products for export. [Text] [Beijing RENMIN RIBAO in Chinese 16 May 85 p 2] 12581

CSO: 4006/680

## HONG KONG ECONOMIC TRENDS

### PRC-CONTROLLED ELECTRONICS FIRM OVERCOMING FINANCIAL PROBLEMS

HK280217 Hong Kong AFP in English 0705 GMT 27 Jun 85

[Text] Hong Kong, June 27 (AFP)--Beijing-controlled Conic investments, one of this territory's top electronics concerns, says it is on the road to recovery after being plagued with financial problems a year ago.

Conic is Hong Kong's top manufacturer of television sets and telephone equipment, with annual sales topping one billion Hong Kong dollars (127.9 million U.S.).

Sin King Enterprises, a Chinese-run concern based here, bought a 34.8 per cent stake in Conic in January 1984, paying out 178 million dollars (22.8 million U.S.).

It looked for a time like a bright move, but in May 1984 Conic asked that trading its shares be suspended saying that a multi-million Hong Kong dollar loan might prove irrecoverable.

A statement released by Conic yesterday indicated that its financial health is improving.

It showed that the company's consolidated net loss after tax but before exceptional and extraordinary items was 27.34 million dollars (3.5 million U.S.) for the 12 months to December 31, down 39 per cent compared to a year ago.

Last year Conic's exceptional and extraordinary losses amounted to 47.5 million dollars (6.1 million U.S.) and 1.04 million dollars (13.4 million U.S.) respectively, and total losses for the year were 75.8 million dollars (9.8 million U.S.).

In 1983 Conic registered losses totalling 374.60 million dollars (48.2 million U.S.).

The electronic leader's turnover last year increased 18 per cent, from 1.225 billion dollars (159 million U.S.) in 1983 to 1.445 billion dollars (185 million U.S.).

Chow Tak Ming, Conic's managing director, said he was optimistic about a return to profitability this year.

Mr Chow said Conic was to diversify its markets with emphasis on China where the company had recently set up various joint-venture plants.

CSO: 4020/268

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